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Sustainable Horticulture

Structural Adjustment in the Indian Economy-an assessment

CONTENTS

Editorial—Some Highlights

General Economic Scene 175

Agricultural Development in Tamil Nadu 199

Industrial Development in Tamil Nadu 202

Education, Science and Health 204

Employment and Labour Relations 206

Other Items 207

MIDS News 209

March Development Seminar

Sustainable Horticulture 210
— Mr. S. Rajaram

Summary of Discussion 218

Structural Adjustment in the Indian Economy - an assessment 221

EDITORIAL - SOME HIGHLIGHTS

1. General Economic Scene

State

1992-93 Plan

The deadlock between the state government and the union Planning Commission over the latter's allocation of Rs. 1486 crores as the 1992-93 Plan outlay reported in the last issue has been revised with the Planning Commission agreeing to Rs 1751 crores as the outlay for 1992-93 as requested by the government This is arrived at, according to the Planning Commission, as follows: Rs 1486 crores as the outlay for 1992-93 agreed at the January meeting between the state government and the commission, plus Rs. 168 crores which the state has stated that it will raise as further resource mobilisation, plus Rs. 50 crores under externally aided projects plus Rs. 50 crores as likely union assistance on union sponsored projects transferred to the states —Rs. 1751 crores. The increased Rs. 150 crores will be shared by increased allocations to agriculture, energy, transport, and social services - agriculture from Rs. 187.53 crores to Rs. 215 crores, power from Rs. 425.65 crores to Rs. 458 crores, transport from Rs. 89.116 crores to Rs. 126 crores, and social services from Rs. 47.97 crores to Rs. 70.80 crores. Two points on this may be noted. Whether the state will reach Rs. 1486 crores or Rs. 1751 crores on the plan outlay in 1992-93 depends on a) its being able to raise the additional resources promised and b) whether it is able to spend the 1991-92 (current year) outlay of Rs. 1605 crores on which the commission has doubts. Second, the state faces a very tight financial situation with Rs. 236 crores for the noon meal scheme, Rs. 2790.15 crores on salaries, Rs. 1250 crores as overhead, water supply to the farmers, Rs. 346 crores as subsidy on rice supplied through PDS, Rs. 42 crores as rebate to handlooms, Rs. 24 crores as free bus pass to students, Rs. 19 crores as free uniform to students, Rs. 4.50 crores as free footwear to school children, Rs. 18 crores as free textbooks, Rs. 15 crores as assistance to pregnant

women, Rs. 5 crores as old age pension schemes, Rs. 41.56 crores as free supply of dhoties and saries, Rs. 17.14 crores as interest loans and Rs. 1500 crores as debt repayment to the union government. The government reports to the Assembly that the 1988-89 plan expenditure of Rs. 1020 crores was 12 per cent short of the provision of Rs. 1157.64 crores outlay due to the shortfall in all items. This record shows that in 1992-93 the plan outlay target will not be met and the government will have to cut back on its increasing welfare schemes to stay financially viable.

Power

Power in the state in February was normal, with all its hydel stations working fully as the hydel reservoirs had adequate water storage due to the good rains and thermal stations working with coal being stored for the difficult summer months. TNEB reports that the 210 MW fourth unit of the Tuticorin thermal power station was commissioned on schedule on February 11, that is within 40 months during which the BHEL boiler and turbo generator were erected, tested and went on stream. This was followed by commissioning of the fifth 210 MW set on February 20. With this addition, the total installed capacity of the BHEL thermal sets has risen to 2751 MW, making up around 70 per cent of the installed thermal capacity in the state and that of the Tuticorin plant to 1030 MW of installed capacity.

At the national level the power situation was normal except in the few states where cuts on HT users were imposed to save power. The loans of NTPC and NHPC due from the state boards are mounting and will be reaching Rs. 3400 crores by 1993-94 against the present Rs. 1644 crores. This huge indebtedness of the State Board is related to the question of remunerative tariffs and and poor collection performance. Hence the World Bank which has loaned these two agencies - NTPC and NHPC - over $1 billion is now insisting on the loans being transferred from the 2 bodies to the National Power Transmission Corporation (NTPC). The problem faced by the government in this action is that NTPC will raise power tariffs sharply as the only means of meeting the loans. The Bank is proposing the rate of return on the investment in power that has been needed and this will certainly push up power tariff rates. There is no alternative to this rather bitter medicine to make up for the years of profligacy. NTPC and the Aseon Brown Bovry (ABB) have concluded a joint venture agreement for the construction of massive power plants in the country. Under the agreement, ABB will import $11 billion worth of equipment in the power sector. This agreement was signed at Davos when the Prime Minister was attending the World Economic Forum. Similarly Siemens of Germany has offered $1 billion as technical credit to NTPC for setting up major projects during the VIII Plan. Both these accords will now go before the cabinet for approval. The Department of Non Conventional Energy reports that it is offering attractive incentives to industrialists to set up wind power plants. Here the private sector is being invited to "bank and wheel" the wind power along lines of the 4 MW of wind power at present contributed by it in Tamil Nadu. The department plans to raise wind power generation capacity to 400 MW during the VIII Plan - and this will be a real alternative to the expanding conventional sources of power. The country is said to have the potential to generate 20,000 KV of wind power both in the plains and

hills of HP, Orissa, MP, Karnataka and Tamil Nadu. The private sector has here an open field for development.

Transport

Two developments in the transport field are reported in February. One is a programme to run the state transport on gas. A phased programme is planned under which 10,000 buses of the state Transport Corporations will be switching over to run on compressed natural gas (CNG). A start is being made with the Cheran Transport Corporation to run 10 buses on CNG. The first pilot run of a Cheran bus was successfully organised on February 20. This would strengthen the decreasing trend in the rate of oil consumption in the state caused by the rise in its price by 82 per cent in 1989 and 55 per cent in 1990 and be important means of conserving crude oil and its product. The other development is that under the Tamil Nadu Urban Development Project the World Bank has cleared 10 additional roads improvement work at a cost of Rs. 30 crores. World Bank assistance has increased sharply, by more than 50 per cent, following the devaluation of the Rupee, from that original outlay of Rs. 626 crores to Rs. 930 crores. This has enabled the programme to be extended to 10 urban centres including Madras, Madurai, Coimbatore and Salem. As a consequence, by the terminal date of March 1983, there will be a real transformation of the road net work in the state.

Permanent Trade Fair

The state's trade facilities are to be augmented by the establishment of a permanent trade fair at Taramani. This is being developed by the merged Trade Development Authority and the Trade Fair Authority of India in the unified Indian Trade Promotion Organisation and the state government. A number of industrialists have expressed interest in the venture and will be participating in the project. ICICI is preparing a detailed project report to be ready by February 15. It will have an initial investment of Rs. 330 crores. This trade fair facility will augment the trading opportunities in the state and bring the state's trade into the national mainstream organisation, with the Council for Leather Exports, will help to make the trade fair complex an important state and all India facility.

Urban Development

The Madras Water Supply and Sewerage Board (MWSSB) is desilting the major and critical sewer lines in Madras city before the onset of the monsoon. In this, the bucket system has been introduced and is clearing the works rapidly. It lowers the cost. Now the city should face the monsoon with confidence. Equally the industry water supply is after a long time plentiful and adequate. The water supply in the reservoir will enable the current rate of 55 million gallons a day to be supplied well into January 1993. The government states that it will spend Rs. 300 crores on urban development, using the saving from the devalution of Rupee. The development includes an elevated leeway on Anna Salai (Rs. 100 crores), improvement of roads in all the 10 urban centres covered under the World Bank loan (Rs. 100 crores) and a contribution to the Municipal Development Fund (Rs. 100 crores).

Small Savings

The government announced raising the interest on small savings from 2 to

2.5 per cent for the remaining 2 months of the financial year. This it is hoped will enable the state to reach the small savings target. The government states that if small savings reached Rs. 1000 crores, with the budget deficit of Rs. 575 crores, there will be no additional tax in next year's budget (1992-93). This remains to be seen.

National

Union Budget 1992-93

The government introduced the union budget for 1992-93 in Parliament on February 29. The Budget presented may be summarised as follows :

(in Rs. crores)	1990-91 Actuals	1991-92 (B.E.)	1991-92 (R.E.)	1992-93 (B.E.)
1. Revenue receipts	54,954	67,529	66,549	75,688
2. Tax revenue (net to Centre)	42,978	52,500	50,006	56,456
3. Non tax revenue	11,796	15,029	16,543	19,232
4. Capital receipts	39,015	38,174	39,521	38,010
5. Recoveries of loans	5,712	5,666	6,261	6,491
6. Other receipts	—	2,500	2,500	2,500
7. Borrowing and other liabilities	33,303	30,008	30,760	29,019
8. Total receipts (1+4)	93,969	105,703	1,06,070	1,13,698
9. Non-Plan expenditure	76,198	79,697	80,070	84,475
10. On revenue account	60,850	64,315	66,696	71,233
11. On capital account	15,348	15,382	13,374	13,242
12. Plan expenditure	29,118	33,725	33,032	34,612
13. On rev nue account	12,666	17,068	16,934	18,337
14. On capital account	16,452	1,16,657	16,098	16,275
15. Total expenditure (9+12)	1,05,316	1,13,422	113,102	1,19,087
16. Revenue expenditure (10+13)	73,516	81,383	83,630	89,570
17. Capital expenditure (11+14)	31,800	32,039	29,472	29,517
18. Revenue deficit (1+16)	18,562	13,854	11,081	13,882
19. Budgetary deficit (8—15)	11,347	7,719	7,052	5,389
20. Fiscal deficit (1+5+6)—15=7+19)	44,650	37,727	37,792	34.408
Increase in net RBI credit to Central Government*	14,745	7,719	8,800	5389**

* Including other variations in Reserve Bank of India's credit to Central Government.

** Not independently estimated — PTI

The budget presented shows that in 1991-92: i) the revised budgetary deficit is lower at Rs. 7032 crores over the budget estimate of Rs. 7719 crores and the revised fiscal deficit is Rs. 37792 crores against the budget estimate of Rs. 37727 crores which is 6.5 per cent of GDP (in accordance with commitment made to IMF), and compared to 8.4 per cent in 1990-91. ii) total receipts in the revised budget are a little higher at Rs. 106070 crores, against the budget estimate of Rs. 105703 crores. iii) total expenditure in the revised budget are also a little lower at Rs. 113102 crores against the budget estimates of Rs. 113422 crores. iv) the Revenue deficit in the revised budget shows a sharp increase at Rs. 17081 crores against the budget estimate of Rs. 13854 crores due mainly to the fall in revenue receipts including in particular the tax revenue in the revised budget. That is, customs revenue fell by Rs. 3760 crores due to the severe import compression and was only partially compensated by high tax realisation from excise duties and income tax, making the shortfall in gross Rs. 1869 crores. v) the plan expenditure in the revised budget estimate is Rs. 33725 crores due mainly to the difficult resource position, resulting in limiting budget support to the union plan at 7 per cent less than the budget estimates. But union assistance for state plans, were increased by Rs. 651 crores higher than the budget estimate (which compensates a little for the Rs. 1365 crores shortfall they suffered in small savings loan). In the 1992-93 budget: i) the budget deficit is further reduced to Rs. 5389 crores, ii) the fiscal deficit is reduced to Rs. 34,408 crores which is 5 per cent of GDP, iii) revenue receipts are estimated at Rs. 75688 crores and tax revenues to the union Rs. 56456 crores, on the basis of the Chelliah Committee recommendations involving: a) personal income tax rates being fixed at 20 per cent at entry level, 30 per cent on income above Rs. 50,000 and a maximum of 40 per cent on income above Rs. 1 lakh against 50 per cent maximum previously. b) firms to be taxed at a flat rate of 40 per cent, c) no change in corporate taxes, d) surcharge of 10 per cent in the case of companies to continue and on individuals only on those with income over Rs. 1 lakh, e) reduction in number of tax incentives, the deduction under sections 80L, 80CCA and 80CCB being abandoned, f) to counter the fact that only 7 million people out of the population of 850 million pay direct tax (income and corporate tax) a presumptive tax is introduced on shop keepers and traders with an annual turnover below Rs. 5 lakhs at the flat rate of Rs. 1400 for the year, g) capital gains to be taxed at a flat rate of 20 per cent for individuals and 40 per cent for companies and firms, with indexation for capital gains, h) in order to plug the loophole of leakages the income of a minor child is to be clubbed with that of the parent, excluding professional incomes of child artists and wage income of minors from such clubbing, i) the standared deduction of working women increased from Rs. 12000 to Rs. 15000 and the tax rebate of 10 per cent for the old and increased deduction of income tax payers who support handicapped persons from Rs. 6000 to Rs. 12000, j) private sector mutual funds authorised by SEBI to be exempt from income tax, k) income of foreign currency convertible bonds of Indian companies to be taxed at a concessional 10 per cent and all NRIs to be protected from foreign exchange fluctuations in respect of capital gains, l) wealth tax to be levied only on non productive assets, with increased exemption limit of Rs 15 lakhs, m) all

individuals and companies to pay wealth tax at 1 per cent, n) expenditure tax on air conditioned restaurants withdrawn and that on hotels only where room rent charged is above Rs. 1200 per day, o) exemption from expenditure tax on payments made in foreign exchange withdrawn, as with the partial convertibility of the rupee and the exchange adjustment made, there is no longer justification for this exemption, and p) tax deduction at source on interest from time deposits in banks and from commissions and brokerage is withdrawn. All these direct tax reforms are based on the recommendation of the Chelliah committee. Similarly on indirect taxes, in customs duties: a) the basic plus auxiliary duties are reduced from last year's reduced 150 per cent to a maximum of 100 per cent, with exception of passenger baggage and alcoholic beverages, b) duty on capital goods from 80 per cent to 60 per cent and in the case of electronics industry from 60 per cent to 50 per cent, the capital goods in projects for coal mining, crude petroleum refining and power to 30 per cent and on all other capital goods from 80 per cent to 70 per cent, c) duty on firms reduced by 20 per cent, d) duty on specified pesticide from 110 per cent to 75 per cent and on specified pesticide, pesticides intermediates from 120 per cent to 65 per cent, e) full exemption from import duty on seeds for vegetables, pulses, oilseeds, flowers and duty on rice transplantation reduced from 80 per cent to 40 per cent, f) duty on petro chemicals reduced and g) duty on asbestos fibre reduced from 90 to 70 per cent on raw silk from 55 per cent to 30 per cent, and g) export duty on imported silk, finished leather, granite and iron ore : in excise, a) duty on cigarettes increased, b) duty on cement raised, c) duty on light commercial vehicles increased from 10 to 15 per cent, d) varying increased duty on VSF, VFY and acrylic fibre, e) duty rationalised on processed fabrics, on cotton yarn and polyester blended yarn, f) more ad valorem rates on ferrous and non ferrous metals, g) duty on detergents and polythene increased, h) duty on cocoa and cocoa based products raised by 10 per cent, i) duty reduced for moped tyres but increased for other tyres, j) duty on paints, wires and cables raised by 5 per cent each, k) duty on watches raised, l) exemption for glass containers, panel doors, plastic windows, red mud bricks and m) duty on prefabricated building reduced from 15 per cent to 3 per cent, 15 per cent levy on 2 wheelers and all others to pay uniform levy of 25 per cent ad valorem. The net impact of the customs and excise proposals amounts only to Rs. 187.55 loss. The loss of Rs. 876.82 crores in customs falls entirely on the union, whereas the excise increase is shared with the states giving them Rs. 1064.37 crores. Taking direct and indirect taxes yields, the result of the net revenue loss of Rs. 517 crores accrues to the union, while the states gain Rs. 1500 crores. Other proposals include i) a new system of partial convertibility of the Rupee to boost exports. The new system will replace Ex-Imp scrips. In the new systems 40 per cent of the foreign exchange remitted will be converted at the official exchange rate and the remaining 60 per cent at the market determined rate, (which the finance minister hazards will be +15 per cent or so). The foreign exchange surrendered at the official rate will be available to the government to meet foreign exchange requirements of essential imports like petroleum and oil product, fertilisers, defence and life saving drugs. All other imports will be freely importable on open general licenses with the foreign exchange obtained from the market: ii) the total Union Plan outlay for 1992-93 is Rs. 48407 crores, with union assistance

to the plan of the states increasing form Rs. 14,710 crores in the budget estimate for 1991-92 to Rs. 16,111 crores in 1992-93. The internal budgetary resoures will be Rs. 29,906 crores, which is an increase of 25 per cent on the current year's level and is critical to achieve the substantial increase in the Plan outlay. The outlays for the railways are increased from the current years's Rs. 5325 crores to Rs. 5700 crores in 1992-93, for shipping from Rs. 617 crores to Rs. 1222 crores, the civil aviation from Rs. 433 crores to Rs. 4500 crores, in fertilisers from Rs. 481 crores to Rs. 1234 crores. The outlay for power is fixed at Rs. 6411 crores and for petroleum Rs. 6054 crores. The allocation for rural development is Rs. 2610 crores which is lower than the budgeted estimate of 1991-92. Family Welfare allocation has been increased to Rs. 1048.7 crores which is an increase of Rs. 344 crores. iii) the budget abolishing government control over capital issues which liquidates the office of controller of capital issues and states that it will soon award FERA. iv) reduces the statutory liquidity rates from 38.5 per cent to 30 per cent in accordance with the Narasimhan Committee Report recommendation, which it is proposed to follow in a phased manner, v) lower the floor level of interest tax on commercial loans, vi) gives permission to companies with a good track record to issue convertible debentures or equity to investors abroad at par with the benefits available to offshore mutual funds, vii) proposes a a small farmers agri business consortium financed by RBI, NABARD and IDBI which will start 12 major projects in the country, based on a mix of entrepreneurs, state governments and farm families, viii) its aim to increase food yield, productive jobs and higher incomes in rural araas, ix) allocated Rs. 2500 crores for food subsidy, which may be augmented during the year to meet the needs of the revamped PDS, x) allots Rs. 5000 crores as fertiliser subsidy, xi) sets Rs. 17500 crores as defence outlay and an ad hoc increase in pensions to defence personnel, xii) permits import of gold upto 5 kg on payment of duty at Rs. 450 per ten grammes, xiii) introduces a tax free gold bond scheme under which a bond will be received in return for gold, the bond being for 5 to 7 years and could be liquidated by return of the gold, and levy wealth and gift and income tax, xiv) Rs. 1000 crores will be available from the International Development Association to be used for the social safety net schemes including special schemes for unorganised workers. An additional allocation of Rs. 500 crores from the corpus of the National Renewal Fund is being ear marked for employment generation schemes supplementing the employment generation through the Jawahar Rozgar Yojana. Also a scheme is being worked out to upgrade technology of handicrafts which is a major employment and employment generating sector: a) very important decision is that market borrowing is being reduced in 1992-93 to Rs 5000 crores. The sectoral outlays for 1991-92 and for 1992-93 and the percentage change in the 2 years are as follows :

Sector	1991-92	1992-93	%change
Agriculture	1735	1929	8.20
Rural Development	2356	2510	10.8
Irrigation and flood control	217	231	6.5
Energy	12269	14999	22.2
Industry & Minerals	6590	8198	22.2
Transport	7415	9129	22.5
Communications	3530	4890	34.7
Science, Technology & Environment	841	936	11.2
Social Services	4585	5128	12.3
Others	454	409	-2.9
Total	40172	48172	20.5

The budget for 1992-93 is an innovative one. It proposes, i) the partial convertibility of the Rupee and the abolition of the Eximp scrips which will both boost exports and reduce bureaucratic paper work and corruption, ii) the introduction of gold bonds and gold imports as a means of decreasing gold smuggling, iii) the small farmers agri business consortium which can boost the agricultural and rural sector — in production, employment and incomes, iv) the reduction in fiscal deficit and more important budget deficit which will continue the financial discipline started in 1991-92 and contribute to inflation control to some extent, v) the reduction in revenue deficit from the 1991-92 revised from Rs. 17081 crores to Rs. 13882 crores through keeping down the revenue expenditure to Rs. 82750 crores, which is marginally higher than the 1991-92 revenue expenditure, vi) the widening of the tax net by the introduction of the presumptive tax, vii) the reduction in some of the items of non plan expenditure, on interest payments and particularly through the cut in market borrowing which will help reduce future interest payments-all these are positive factors to be welcomed. The questions on the budget relate to: a) to reform income tax which is based on the theory and assumption that low rates of taxation will lead to greater tax compliance and less tax evasion which so far has no empirical proof, b) a sharp reduction in customs duty and the consequent loss of revenue to the government which complies with the World Bank advice, but its effect on India's capital goods industry needs attention, c) the effect of the budget on inflation which is the country's No. 1 priority is not clear as no direct restraint of prices including foodgrain prices has been proposed, d) similarly the effect of the budget on correcting the balance of payment deficit in the country is also not evident and needs watching. Finally the deficits reduction involving limiting of reducing Plan outlay which will affect

development in the remaining years of the VIII Plan, and as noted, has involved reduction in the social sector which falls on the poor as far as employment generation and poverty alleviation and primary adult education are concerned. Even health care is limited, and only family planning provision has been increased. Hence the dilemma how we can bring about structural adjustment for introducing stability and growth in the economy without making the poor pay the price is before us for solution.

Chelliah Committee Report

Since there has been constant reference to the report of the committee on tax reform, called for short, the Chelliah Committee, a summary of the report laid before Parliament is made here. The committee in its report on the tax reform for the country, a) aims at ridding the country of tax loopholes, provide a fillip for genuine savers, and make the tax system more efficient and revenue earnings. b) it lays down the principle that the tax system and its burden must be acceptable to all the people of the country. c) it says that while the wealth tax structure should be progressive, it should not be such as to induce the generation of unaccounted income and wealth (black money). d) the tax structure once established should be stable unless and unlike the economic condition undergo a radical transformation. "Ad hoc changes from year to year will undermine rationality and reintroduce complications". e) the tax system and law should be as simple as possible and should have the limited objective of raising revenue for the government in a fair and efficient manner, achieving redistribution and discouraging some industries and the use or consumption of some products as well as granting a reasonable degree of protection to domestic industries, f) the tax system should have a limited number of rates and exemptions or deductions and give the least possible discretionary power to tax official to interpret the law. g) the methods of tax administration should be modernised and tax enforcement visibly improved. h) on income tax on individuals, the exemption limit should be fixed at Rs. 28,000 and the marginal rate should be 20 per cent for total income with a range of Rs. 28,000 to Rs. 50,000, 27.5 per cent in the range of income of Rs. 50,000 to Rs.2 lakhs and 40 per cent for total income exceeding Rs. 2 lakhs. i) for local authorities tax should be a flat 30 per cent. j) in the case of domestic companies, the tax rate increase or surcharge should over the next 3 years (by 1995-96) be reduced to the same rate as for individuals at 40 per cent. k) the existing distinction between companies in which the public are not interested and those in which they are interested should be abolished. l) the complete statement of the incomes of both the spouse or all members of the family is not possible. m) the tax rebate under section 88 for investment in Provident Fund, NSC. should continue to be allowed at the entry point for investment upto Rs. 10,000. Tax concessions should be restricted to Provident Fund, LTC and repayment of loans taken for house construction. n) tax concessions under section 50CCA for investment in annual plans of LIC should be withdrawn, while tax concessions under section 80CCB for investment linked saving scheme should be abolished. o) the existing ceiling of Rs. 40 000 in NSS under section 80CCA should be enhanced to Rs. 50,000. Provisions of sections 35-AC, 35-CCA, 35-CCB and 80GCCN should be restricted to 50 per cent, in the case of other donations

under section 80G deduction should be allowed only for approved bonds and not for expenditure on an inhouse programme, p) tax incentives should be kept well ordered, the rules for perquisite valuation of concessional rent accomodation should be mobilised to make it equal to 20 per cent of the salary. This should apply to both public and private sector employees, q) clause 13A of section 10 providing for exemption of house rent allowance as per rule 2A should be abolished. r) when the expenditure increase by the employer in providing housing is in excess of 20 per cent of the salary of the employee, such excess which remains should be captured in the tax assessment of the employee, should be subject to a separate fringe benefit tax of the employer at the flat rate of 30 per cent. s) At least 80 per cent of the leave travel allowance, home travel allowance, travel allowance on retirement, passage may be subject to L&S. t) the allowance paid to legislators should be fully subject to tax. u) the value of other perquisites as contained in rule 3 should be revised upward to allow for inflation. v) for capital gains, a long term capital asset should be deemed to mean a capital asset transfer after 1 year from the end of the financial year in which the asset was acquired. The cost of the assets acquired prior to a cut off date should be converted into the value of the asset on that date. The gain should be computed after adjusting the cost of acquisition and improvement by the cost inflation index. w) existing provisions restricting the deductability of certain expenses in business should be reviewed. The deduction of Rs. 3600 for a residual unit forming partof building for 5 years should be withdrawn. As the lower rate of income tax will benefit house property owners the deduction for construction of new residential units should be withdrawn from the assessment year 1993-94. x) all amount equal to one fifth of the annual property value should be allowed as statutory deduction for house repair and the exemption of interest on pre completion of loan should be reduced from 5 years to 3 years. y) the registration of firms for income tax purposes should be abolished as also the existing tax on firms income. The problem of benami partners should be tackled by the benami (protection) Act of 1988. z) traders and manufacturers operating on a small scale but on the taxable income should be brought under the presumptive Act scheme. AA) a second variant of the presumptive tax scheme will take an estimated percentage of the gross turnover in the business, the percentage varying with the type of business. The scheme is called the Estimated Income Scheme (EIS). AB) tax on wealth should be abolished on all items except those which are unproductive. AC) the first Rs. 15 lakhs of the net value of taxable items of wealth should not attract any tax and excess above that to bear tax of 1 per cent value. AD) the total income of the cooperative society above the exemption limit should be taxed at 30 per cent. AE) restructuring of import tariff to be progressively achieved so that by 1989-90 average tariff rates are reduced to 25 per cent and the maximum to 50 per cent. The basic and auxilliary duty should be combined into one protective tariff. AF) a switch to value added tax for domestically produced goods and services is proposed. AG) under this value added tax system, such services as advertising, stock brokers, automobile insurance should attract 10 per cent tax of the value of the transaction. AH) creation of a Directorate of Valuation is proposed and AI) a tariff guide giving the classification of all commodities manufactured in the country should be made available. Thus in the

budget for 1992-93 some of the recommendations like the exemption limit for personal income tax have been accepted and incorporated in the budget proposal, others like the slabs and rates have been accepted with modification and a majority on indirect tax are not incorporated in this budget.

Railway Budget

The Railway Budget for 1992-93 presented to Parliament at its start on February 25 is characterised by an increased resources mobilisation effort. The budget summary is as follows :

Actuals 1991-92	Budget 1991-92	Rs. Crores		Revised 1991-92	Budget 1992-93
12096.49	13319.00	(a)	Gross Traffic Receipts	13586.00	15884.00
8233.90	9180.00	(b)	Ordinary working expenses	9205.00	13884.00
1950.00	2000.00	(c)	Appropriation to Depreciation Reserve Fund	2000.00	2300.00
969.96	1050.00	(d)	Appropriation to Pension fund	1090.00	1200.00
11153.86	12230.00	(e)	Total working expenses (b) + (c) + (d)	12295.00	1360.00
942.64	1089.00	(f)	Net Traffic Receipts (a) — (e)	1291,00	1924.00
171.15	183.00	(g)	Net Miscellaneous Receipts	183.00	206.00
1113.78	1272.00	(h)	Net Railway Revenue (f) + (g)	1474.00	2130.00
926.14	1037.00	(i)	Dividend payment to general revenues	1039.00	1120.00
11.97		(j)	Payment of deferred dividends		416.45
+ 175.67	+ 235.00	(k)	Excess/shorfall (h)-(i)-(j)	+435.00	+563.54
175.67	235.00	(l)	Appropriation to railway development fund	435.00	563.54
53.44	110.00	(a)	Repayment of loan and interest	310.00	281.82
		(b)	Development works	125.00	145.00
		(c)	Balance for Plan Finance	—	136.71
92.0%	91.8%	(m)	Operating ratio	90.3%	87.7%
6.9%	7.2%	(n)	Percentage of net revenues to capital at change	8 3%	10,9%

It will be noted that on its receipts side, 1991-92 revised receipts were higher than the budgeted receipts (and over 1590 crores higher than the 1990-91 receipts). This was due to the raising of fares and tariffs in 1991-92 to raise over Rs. 1300 crores in a full year (see Vol XXI p 382). The rates and fares if maintained at that level would not cover in 1992-93, according to the minister. Hence the budget for 1992-83 proposes to raise an additional Rs. 1366 to compensate for the sharp reduction of budgetary support through. a) raising freight in all commodities by 7.5 per cent except some essentials which go up by 4 per cent and 10 items (foodgrains, salt sugar, gur, tea, fruits and vegetables, edible oils, kerosene, diesal, chemicals and manures, organic manures, oil cakes, oil seeds, live stock and fodder, are completly exempted from any increase. p) raising minimum fares for AC first class sleeper and chair by 20 per cent. c) increasing fares for special trains like Rajdhani and Shatabdi. d) increasing more moderately the second class ordinary. e) revising minimum charge for parcels and luggage from Rs. 7 to Rs. 30, except for fresh fruits and and vegetables where the increase is Rs. 20. f) increasing second class express mail fares and g) increasing rather, sharply for first and second class monthly season ticket holders. The result is that the surplus for the year is increased to Rs. 563.54 crores from Rs. 436 crores in 1991-92. That year 1991-92, as shown in the table was a good year as seen in the fact that revenue earning traffic increased by 19 million tonnes over the target of 318 million tonnes, leading to setting the traffic target at 354 million tonnes for 1992-93 and the 5 percent growth in passenger traffic. The Plan outlay for 1992-93 proposed by the planning commission at Rs. 5450 crores (against the 1991-92 plan outlay of Rs. 5223 crores) was raised to Rs. 6700 crores on the pleading of the railway and is to be reviewed again as this is not adequate to meet the minimum Plan needs for 1992-93 in the development of essential infrastructure, gauge conversion and electrification, rolling stock and terminal capacity, so that the railway facilities are altered keeping pace with the demand for their service. 11 new projects and sections totalling 277 km are listed and 8 new lines are programmed to be opened in 1992-93 totalling 367 kms. Of 9600 km of track removal needed 2950 km renewals will be undertaken in 1992-93. To save diesal electrification is being stepped up, including Delhi-Madras, Jolarpet-Bangalore and Jolarpet--Salem-Erode. Among the 1553 km new electrification projects, is the Erode-Ernakulam-Cochin harbour route. The metro projects in 1992-93 include in Madras Beach-Luz MRTS project where after the Madras Beach Park Town stretches the Park Town - Chepauk lines will be completed in 1993. It is the replacement of outworn wagons, coaches and locomotives that is lagging and here the question of the priority for these renewals over opening new lines and the expansion of the Plan resources is raised. The 1992-93 railway budget has done its share in raising resources, its performance should continu- to improve as in the previous year, particularly in keeping up the improvement in administration efficiency which the decline in the operating ratio for 1992-93 highlights. In particular the efficient execution of the Rs. 5700 crore annual plan should strengthen the case for higher plan allocation. The new technology being introduced, an improved safety record of the railways and shedding what can be done like manufacture of railway equipment and components and catering to the private sector should

further improve its efficiency. Finally the budget is progressive in exempting or keeping down the impact of increased rates - on essential goods and concentracting its increased fares on the well to do classes using the higher class facilities and the special express services. The budget will contribute to inflation in its 4 per cent hike in the coal tariffs, and the 7.5 per cent cost increase in other industrial inputs like steel, and the raw materials which go in to its manufacture and cement. The extent to which even this modest budget can be executed in full will depend on the pace of recovery of the economy; will make the attainment of the revenue earning tariff target of 354 million tonnes unattainable and to that extent disrupt the railway's functioning and finances in 1992-93. Hence in the end all of the railway plans and programmes depend on the rate of growth of the economy and the extent to which that will strengthen the Plan and Plan finances for the railways.

Economic Survey

The government's economic survey presented to Parliament on February 27, two days before the presentation of the union budget records the following data, actual for 1989-90, quick estimates for 1990-91 and forecasts for 1991-92.

TABLE I

	1989-90	1990-91	1991-92
1. GNP	6.1	5.8	2.5 to 3
2. GDP	6.0	5.6	2.5 to 3
3. Agricultural Production	2.1	2.6	0
4. Food grain production	0.6	3.0	-1.5
5. Industrial production	8.6	8.5	-0.8 (April October 1991)
6. Electricity generation	10.8	7.8	1.0 - " -
7. Wholesale price index	9.1	12.1	12.8 (April 1991-Jan. 15, 1992)
8. Consumer price index for industrial workers	6.6	13.6	13. 1 (April-December 1991)
9. Money Supply M	19.4	14.9	14.9 (April-November
10. Imports at current prices (in Rs. crores)	25.4	22.0	7.0 (April-November 1991)
11. Imports at current prices (in US dollars)	9.1	13.2	-20.7 (April-November 1991)
12. Exports at current prices (in Rs. crores)	36.8	17.6	28.1 (- " -)
13. Exports at current prices (in US dollars)	19.0	9.1	-5.0 (- " -)
14. Foreign currency assets (in Rs. crores)	5787	4388	11410 (As on Feb.20, 1992 for 1991-92 and at end March for the past years)
15. Foreign current assets [in million US dollars]	3368	2736	4393 [- " -)

On GDP-GNP growth, there is a rather serious upward revision for 1989-90 and 1990-91 (see Vol p385) which will be commented on later under the subsection on the economy. The survey forecasts GDP growth for 1991-92 at around 2.5 to 3 per cent against the 4 per cent expected at the time of the budget presentation in July 1991-92 and the 3.5 per cent indicated to the World Bank in the government's November letter (and the 3 to 3.5 per cent also indicated to IMF). The survey attributes this forecasted poor performance of the economy to the deepening of the crisis which began in 1990-91, when the balance of payments reached crisis proportions by June 1991. A severe import squeeze introduced during 1990-91 to meet the foreign exchange shortage disrupted industrial production which began declining from early 1991-92, while inflation which has started accelerating reached a growth of 16.7 per cent in August 1991. The lower growth is attributed partly to the slow down in agriculture which in 1991-92 will be nil and partly because of the deceleration in industrial growth which is forecast at a negative below (—) 1 per cent. As will be noted later in the agricultural sub section, the kharif foodgrain crop in 1991 was lower than that of the previous year which is forecast at 1 per cent. Industrial production also had started slowing down in the second half of 1990-91 and recorded a decline at the start of 1991-92, with the industrial index for April-June 1991 being 2.3 per cent lower than that of the previous year, with the next quarter July-September recording a modest 0.5 per cent gain, but declining again in the next 1 month by 1 per cent which reflects the 0.9 per cent for April-November recorded in the table. Hence the year 1991-92 has been a year when the government was engaged in a fire fighting action as a result of which foreign exchange reserves reached Rs. 11,410 crores ($4.4 bilion) in the third week of February. The rate of inflation also declined from the 16.7 per cent in August 1991 to 11.8 per cent in February 1991. (The price sub section later, however refers to an annual rate of inflation of 12.5 per cent for the week ending January 25). Under these conditions, the Economic Survey states that the highest priority for the year is to correct the balance of payments deficit and contain inflation. The correction of BOP deficit is building up the confidence in the economy and to mobilise additional resources from the multilateral financial institutions, the Immunity schemes and India Development bonds. But the real and lasting solution to the BOP problem is improved export programmes for which 4 types of adjustment are to be made- which include reduction of the aggregate demand in the economy without hurting production, phasing down of import restrictions and reduction in the high level of import duties, simplification of trade procedures and development of capacity for adoption and innovation of industries to enable their competitiveness. The survey says that in the coming months the objective of fiscal policy will be to : a) stop further accumulation of public debt, b) reduce the level of subsidies in the economy and end open ended cross subsidies, c) to direct government expenditure to providing essential public services of a high quality and d) to restore government's capacity to make strategic investments in infrastructure and human resources. On trade policy, the final objective will be to achieve a degree of openness which will allow trade to balance domestic demand

and supply and permit full exploitation of the country's dynamic competitive advantage. On industrial policy, the aim is to make the attractiveness of different industries in terms of their rate of return on investment to be brought to the same level. The factors that discourage investment such as price and distribution controls are to be dismantled. There is also a need to establish a credible safety net to protect workers against the risks of company failures and make their compensation independent of sick firms. The Narasimhan committee report is to be used as the starting point of financial reforms directed to improving financial strength of the banks and to cover directed credit, adequacy of reserves, methods of prudential regulation and stock market reforms. The survey identifies 7 major areas for reforms, namely the areas of fiscal, trade, industrial, financial, agricultural, poverty alleviation and human resource politics. Improved fiscal balance will help eliminate inflationary pressure. Trade policy reform will produce a tariff system which while protecting domestic industry, will not distort relative prices Industrial policy reform will remove price and distribution control as mentioned earlier and help develop a strategy to make Indian industry competitive. Credible food security system should be maintained. Better targetting of poverty alleviation programme to the worst affected sections to be aimed at. Stern administrative means against hoarders and black marketeers and special emphasis on sound and economic uplift of women are proposed. In agriculture the survey proposes to increase investment and the full potential of the limited land - water resource should be realised. The need for a continuous improvement in technology of production, storage and marketing is underlined, along with special efforts to improve dry land agriculture. The credit system which has suffered from the loan waiver scheme of 1989-90 has to be revamped. The current year's foodgrain production is estimated at 167.5 to 173.5 million tonnes, oil seeds 17 to 17.5 million tonnes, pulses above last year's 14.1 million tonne. The survey is mainly an account of how the economy is being restructured and the various remedies envisaged against the short term problems faced by the economy. Its conclusion is that though the economic policies are based on tackling the immediate crisis, they are based on a vision of the future and the promise of a better life for the people. This is not obvious because the survey does not make clear where the economy is heading and at what pace it is so heading, particularly for the price for integrating the Indian economy with the global economy, involving the sacrifice of equity related concerns in areas like food subsidy - the public distribution system, anti-poverty programmes and priority sector lending. Further the pace of the reform should be one that is politically feasible. From what is happening in Parliament over the rate of implementation of the reform package, this is not obvious.

Plan

After a deal of discussion and negotiations, the Planning Commission has recommended the 1992-93 annual Plan outlay at Rs. 77835 crores with Rs. 48370 crores for the union and Rs. 29463 crores for the states. This gives 62 per cent of the total allocation to the union and 38 per cent to the state (as in the current year). The Union Plan has been raised by 12.5 per cent and that of the state by 8 per cent. At this stage 3 points may be noted. The union sector plan outlay total conforms to the 1992-93 budget figure : it is the state's

plan data which needs further study. Second, the recommendations for the states are made on the optimistic assumption that unlike this year when their expenditure is likely to be only 35 per cent against the 38 per cent allocated, in 1992-93 they will spend their full 38 per cent. *To remove their doubt, the commission has increased the union assistance to the state by 9·5 per cent (to Rs. 15949 crores against the current year's level of Rs: 14710 crores), and reduced the budgetary* support to the union sector by 6.5 per cent. As usual the reduction falls mainly on the social sector, with the allocation for rural development and employment generation proposed to be reduced. Third, given the fact that the year will end at an inflation rates of 13-14 per cent, there is no increase in the annual plan in real terms, the reduction being heavier in the case of the states sector.

Price

Inflation during January was 1.2 per cent, with the whole sale price index standing at 214.5 for the week ended January 25. The annual rate of inflation (on a point to point basis) has stabilised at 12.5 per cent. Groupwise, the index of primary products declined by 0.3 per cent, with jowar, arahar, rice, bajra and ragi showing a 1 to 2 per cent increase. The index for non food articles declined by 0.8 per cent, with increased charges in the feed, power, light and lubricant group. RBI returns *show that money supply increased at* 13.3 per cent *during* April-December 1991 compared to 10. 1 *per cent during the 9 months of the previous year. This was compensated by the lower RBI credit to government during this period,* April-December 1991, *at Rs 9800 crores* against Rs. 13,006 crores during the previous year's 9 months. IDBI points out that despite RBI's corrective measures, inflationary pressures increased in the period. The consumer price index during November on a point to point basis was 14 per cent. Thus the inflation situation has become endemic and it looks as if we will have to live *with it during the coming year, unless the government takes action to counter inflationary expectations.*

Stock Exchanges

The major event in the stock exchange area in February was the grant of statutory status at last to the Securities and Exchange Board of India (SEBI) as an autonomous body to provide investor protection, to promote the development of the *capital market* and simultaneously *regulate the functioning of the Securities Market. This action was overdue, coming as it does 7 years after it was recommended and 4 years after it was* established as a non statutory body and being promised statutory status by 3 governments in their annual budget estimates. The question that must be answered is why,was this long delay when everything else was being rushed through. The Board and its powers are urgently needed. First, it is needed to give the investors, especially the small investors coming to the market in large droves, attracted by the sky rocketing share prices which have been referred to in every issue of the Bulletin and will be in this too. Second, the Board should put into effect the draft code on takeovers. which are now shrouded in secrecy and mystery. Here SEBI can bring some much needed transparency to these transactions. And finally the *Board should* help to check insider *trading,* which is rampant here but *banned in* other countries. It should

also help to break up the brokers hold over exchanges. There are however a couple of questions that need to be faced. First, if SEBI is to ,have a say in granting consent to capital issues, so that there is a simple body for the healthy functioning of the capital market, should not the office of the controller of capital issues be abolished, and some of the functions of the company law board transferred to SEBI. A second question relates to a statement of the chairman of SEBI that the statute "appears to reduce the effectiveness of SEBI". What are the limitations imposed on SEBI by the ordinance and can they be removed when the final act is passed? The chairman has proposed opening up of the India's capital market for overseas investment and convertibility of the Rupee after improving capital market operations to bring them up to international standards. This is an important suggestion which will increase the country's foreign exchange resources in non debt creating flows against the pile up of our external debt exceeding today $70 billion. The other event in November is the extremely bullish conditions under which the equities in the Bombay Stock Exchange touched the all time high of 2762 by February 21. The government decision to throw open the mutual fund sector to the private sector feed, this rush. Third, with the closing of the two schemes, Foreign Exchange Remittances scheme and the Indian Development Bonds on January 31, the havala premium fell by 10 per cent. Forward badla in the Bombay exchange has been banned as of February 3. RBI has also on February 20 suspended forward sales of the US dollar to authorised dealers, bringing speculative activities to a stand still, despite a heavy demand for spot dollar in the market, RBI explains this as following the substantial improvement in the country's foreign exchange (covering two and a half months imports) which enables it to meet all genuine requirements. This has set off stock exchange speculation about the possibility of a back door devaluation firmly denied by government, and the change of the status of the Rupee to a partially convertible currency, also denied by government.

Economy

A major issue concerning the economy in February was the release of CSO quick estimates for 1990-91 which shows: a) GDP growth in real terms going up by 5.6 per cent, against 6 per cent for the previous year. The quick estimates for 1989-90 was reported at 5.2 per cent (see Vol XXI p161), and now the provisional estimate of GDP growth for that year shows a rise to 6 per cent: b) per capita income during the year increased by 3.7 per cent: c) gross savings declined by 0.4 per cent to 21.9 per cent. The net dissaving of the public sector registered a fall of 33.5 per cent, the net saving of the private corporate sector increased by 11.6 per cent and the household sector by 22 per cent : d) all sectors of the economy contributed to GDP growth; agriculture by 4.3 per cent against the previous year's 2.6 per cent, foodgrain production increased by 3 per cent from 171.04 million tonnes in 1989-90 to 176.23 million tonnes in 1990-91 : e) gross capital formation at constant prices increased from 22.9 per cent in 1989-90 to 23.6 per cent in 1990-91 : f) fixed capital formation increased by 21.2 per cent : g) gross domestic saving at current prices declined to 21.9 per cent from 22.3 per cent in the previous year: h) expenditure on all items both at current and constant prices

increased in 1990-91 compared to the previous year. There are 2 issues on the above CSO summary which need attention. The first is the high growth of 5.6 per cent in GDP recorded in 1990-91 and the provisional estimate of 6 per cent in 1989-90. On the 1990-91 GDP growth does not reflect the serious crisis gripping the economy the Gulf crisis which led RBI in its Annual Report for 1990-91 to forecast a growth rate of 3 per cent for 1991-92. Does this mean that the economy has suffered a more serious decline from the reform measures undertaken from 1991-92 than from the 1989-90 crises. Further, announced provisional growth rate for 1989-90 points to the possibility of the rates for 1991-92 also being pushed up from the quick estimate of 5.6 per cent to 6 per cent and above. The CSO hiked the GDP growth rates for 1989-90 to allow the government greater manoeuverability in respect of the deficit financing, because with the changed base the government can run up a larger deficit than forecast in the year' budget. Even for 1992-93, the government can provide for a wider uncovered budgetary gap. The 5 per cent limit on fiscal deficit for 1992-93 can be attained with a higher provisional estimate of GDP growth for 1990-92 which could come about in next year's report. The other issue raised in the CSO summary is the alarming record of the net dissaving of the public sector in 1990-91 which reduces the commitment given in August 1991 to IMF by the Finance Minister to a mockery (see Vol XXII p66). The public sector has a deficit on GDP which has risen from Rs. 13817 crores in 1989-90 to Rs. 19385 crores in 1990-91, due mainly to the large dissaving of public administration and consumption of fixed capital. How is the plan to be executed if there is this dissaving in the public sector which has to make a positive contribution to he plan resources. So far all talk about economy in public administration has remained just talk and instead every government has increased staff expenses. The only way that the public sector dissaving can be stopped is by control of DAs and the various allowances and not simply a cut in the staff. While the present government is doing a good job on structural adjustment, it has not yet moved on wage related matters and this is a must. The result of all this is to give an air of unreality to India's commitments to IMF. These commitments are based for this year on: a) the GDP grant being 3 to 3.5 per cent, whereas it is likely to be less than 2 per cent: b) inflation will be 9 per cent whereas it has soared to over 13 per cent: and c) foreign exchange reserves will be $2.5 billion by March 31, but are double that, even leaving out IDB income. Under these conditions, is the 1992-93 GDP growth projections of 4 per cent and inflation down to 6 percent credible?. The scenario should take account of the fact of industrial stagnation; after years of industrial expansion exports are still sluggish despite devaluation and eximp scrips, and budget estimates of income and expenditure have gone wrong so that government deficits are increasing. To meet IMF money supply targets, RBI has squeezed the private sector, hitt ng industrial production, consumer credit has been cut reducing sharply the demands for consumer durables, and small industries are particularly bad hit. And yet monetary growth is swelling as noted earlier under the prices sub sector. The excessive fiscal stringency has hurt economic growth and not curbed inflation, it has engendered run away fiscal credit to government which is a mark of fiscal prodigality, fuelled money supply, leading to savage curbs on industry. Is this the root of the problem facing the economy - that industry is

fuelling inflation. IMF has mistakenly focussed on fiscal deficit, whereas the real villian is net RBI credit to government -revenue and capital deficit fuelled by RBI credit. What needs to be cut is not the fiscal deficit but the net RBI credit to government. Other developments in the economy in February to be noted include the government report that the two schemes to attract foreign exchange, the foreign exchange immunity scheme has attracted $800 million and the IDB $ 1500 million totalling 2300 million : government announced that it has disinvested its shares in Mahanaga Telpha Nigam; the industry ministry reports that since the introduction of the new industrial policy foreign investments have increased from Rs. 45 crores in April-December 1990 to Rs. 412.79 crores in April-December 1991, the programmes for foreign equity participation being Rs 534.10 crores; the government has set up the National Renewal fund with an initial capital of Rs. 200 crores - to provide a social security net to the labour force in both the public and private sector; India and Bangladesh have agreed on a comprehensive approach on sharing waters of the 4 main rivers-in Ganga, Meghna, Teesta and Brahmaputra and to exchange information on inflow of the rivers during the dry period; the government announced in mid Novem- not to compensate for the falling value of the Rupee - (which is its capacity to purchase a smaller bundle of goods) the poverty line has been raised from Rs. 6,400 to Rs. 11,060 and that it will come into effect during the VIII Plan for beneficiaries of IRDP; in this connection, the Ministry of (Rural) Development states that after a slow start, the pace of rural development has picked up and will be given fresh impetus during the VIII Plan-through creation of 10 million new jobs yearly and area growth programmes linking development with local features. One rather disturbing development reported by the Indian Express on February 28, is a fresh set of 23 Conditionalities laid down by the World Bank for the release of the second tranche's structural loan of $300 million. The substance of the 25 conditionalities will have to await their becoming official and their presentation to Parliament. But on the assumption that they have been made certain basic queries are raised now: a) taken together with the commitments made to IMF (see Vol XXIIIp66 & 67), these 25 conditionalities laid down by the World Bank are a serious disruption of the country's responsibility for managing its economic affairs: b) the World Bank's conditionalities break the tradition of confidentiality in the dealings of the Bank with the customer: c) they seem to demand a wholesale and speedy change in the economy with a deadline April-May 1992 - which cannot be kept: d) the conditionalities are not restricted to Bank assisted projects but cover the entire economy: e) all this makes the government's task of reforming the economy difficult to the point of being impossible given the nature of the reasoned opposition that it is already facing. It is really to be regretted that the government has placed the country at the mercy of the World Bank and is giving in to obvious pressures from it and the IMF. As a result of persistent demand in both houses of Parliament the government placed before Parliament the letter written by the finance minister to the President of the World Bank on February 11 which contains the broad policy initiatives taken by the government. The following is set forth within the minister's letter: a) the limiting of the fiscal deficit to 5 per cent and inflation to 7.5 per cent in 1991-92 and to 6.5 per cent by 1995-

96 and reducing the external current account deficit from 3.5 per cent of GDP in 1990-91 to 2.7 per cent in 1991-92 and 1.5 per cent in 1995-96 are mentioned: b) there would be further liberalisation of trade policy in the new fiscal year, removing import restrictions as soon as possible, integrating the Ex imp scrip scheme with OGL as soon as feasible before mid 1995, and removal of export licencing and minimum export prices: c) controls on imports are to be drastically reduced and actual user conditions abolished: d) there will be shift of more intermediate goods for import against Ex imp scrip or OGL and capital goods corresponding to 50 per cent of domestic production would be made freely importable under Ex-imp scrip or OGL by May 1992 and the import of all unlisted capital goods permitted with the use of Ex imp scrip by April this year: e) customs duties will be reduced progressively over the next few years: f) on industrial policy, what has been put into effect is referred to, including freeing industries from price and distribution control: g) an inter-ministerial working group will review existing laws governing labour relations, state and local governments role in industrial restructuring, regulations following transfer of land and on this basis a programme of reforms will be recommended: h) restructuring and closing unviable units in the public sector by May 1992 is referred to: finally i) the Narasimhan committee report on financial reform is referred to, along with the government going in for realistic interest rates. It may be noted that there is nothing in this letter which is new and not been placed before or approved by Parliament. The Indian Express however, states that the full documentation which includes the letter from the Bank dated Feb. 13 which contains the objectionable material referred to earlier should be placed before Parliament. Accordingly on February 27 this was done and the documents were placed in the library along with the statement that the 25 conditionalities of the World Bank are part of its report to its governing body, by which India is not bound.

Industry

CSO reports that industrial production from April-October 1991 declined by 0.8 per cent compared to the positive growth rate of 3 3 per cent in that period in 1990-91. In October 1991 industrial production fell by 0.4 per cent compared to October 1990, manufactures is down 1.9 per cent indicating an industrial recession. Automobiles, consumer durables, textiles and capital goods have been hard hit, with producers cutting back production and retrenching staff. Inventories are piling up. Is there a recession? A recession is the result of a slow down in aggregate demand and a decline in business expectations. But the Indian production slow down is due to the savage credit curbs and import restrictions plus price hikes on some key consumer durables. There is a liquidity overhang in the economy which keeps demand increasing and causing galloping inflation so there has to be a tight hold on both money supply and imports. Government reports a sharp fall in the rate of growth of the small scale sector from 8 per cent in 1990-91 to 2 per cent in 1991-92. This is serious for the sector produces Rs. 150,000 crores of goods every year and so the decline this year will reduce GDP growth. In February, government issued guidelines for setting up mutual funds in the private and joint sectors, allowing them to operate both closed end (for which Rs. 23 crores each should be raised) and open end schemes for which Rs. 50 crores are to be raised. In February gover-

rnment announced that it has cleared 18 major German proposals including those from Ben, Urgi, Msanmona Domas, Banmaschina. Government also announces that it has rationalised and simplified the advance licensing scheme. The National Textile Corporation states that it has sought government permission to close 14 units which have no viability. This is a sad move.

Public Sector Enterprises

The V. Krishnamurthy committee on the public sector units has recommended that the government should not hold more than 40 per cent equity in the units. It also does not approve of the present system of disinvestment of profit making units and recommends that the government should go direct to the market to raise the needed resources.

National Production Front

Steel

The steel scene in February presents a mixed picture. The most important development was on February 28, it was announced that steel has been removed from the list of industries reserved for the public sector. Further on the one hand SAIL reports that its output increased by 11 per cent during the 10 months April-January 1991-92, with hot metal touching 8.79 million tonnes and saleable steel 6.55 million tonnes. On the other hand, the secondary steel sector records a negative growth in 1991-92, with a production shortfall of 1 million tonnes. This is due to shortage of steel melting scraps, resulting in record price hikes of indigenous scrap and sponge iron. This is despite the steel decontrol along with reduced customs duties on various inputs. For the current year, there will be import of 5 to 7 lakh tonnes of steel melting scraps against the demand for 25 lakh tonnes of imported scrap.

Crude

The February report on crude is disturbing. Crude production will touch a low 26 million tonnes in 1992-93 against the target of 30 million tonnes. On the other hand, oil consumption which was 55 million tonnes in 1990-91 grew by 4.5 per cent this year, 1991-92, involving an increase of the foreign exchange outgo from Rs. 12,000 crores in 1990-91 to Rs. 13,000 crores in 1991-92. At this rate of increase, oil consumption is expected to be 79 million tonnes in 1996-97 and 103 million tonnes in 2001. We do not have the foreign exchange for this rate of consumption and so the need to push conservation and cut consumption is inescapable. ONGC reports increased exploration in Tripura and striking oil in 2 structures in Bombay High. This will not really meet the growing demand just referred to. The government reports that 3 refineries each with a refining capacity of 6 million tonnes is to be set up during the VIII Plan in Central, East and West India, taking India's refining capacity to 90 million tonnes by 2000 AD against a demand of 100 million tonnes at that time.

Coal

In view of the ministry's admission that because of its limited coal washeries to be set up not being able to wash inferior grade coking and non coking coal, the ministry has developed 6 point strategy to ensure regular and quality supplies and develop consumer acceptance by the various consuming group. The strategy covers the entire sales and marketing process covering different modes of transportation, linkages cove-

ring both core and non core sector consumers: How far this will infact result in delivery of quality coal to the consumers remain doubtful because of the inadequate infrastructure referred to. The government has asked CIL to liquidate immediate 20 million tonnes of non coking pit head stocks to help relieve the shortage of coal in the market. This is needed in any case as those stocks have been accumulating near the collieries over the years. This will help relieve the shortage of coal in the consuming areas and also bring down the price. But this does not ensure quality coal.

Non Ferrous

A 2000 crore 100 per cent export oriented alumina plant is to be set up in the Gandhamardan hills in Orissa, far away from the controversial site near the temple. It will have I million tonne capacity and be operated by the Union government's BALCO.

Agriculture Production

The news in February on the food front is bad. It is now certain that the current kharif production will fall 9 million tonnes short of the target of 103 million tonnes, which means also it would be 5 million tonnes less than the last kharif output. The rice supply will be affected but not as much as that of wheat, as West Bengal and AP have had sufficient rain fall and the major contribution to the Union rice pool, Punjab, is less dependent on rainfall. Even so, the rice supply may go down by more than 4 million tonnes. The real crisis is in regard to wheat, whose price in the market is way above the procurement price of Rs. 245 per quintal, making wheat procurement difficult. Infact procurement is proceeding very slowly. The Union Food ministry estimates that the wheat crisis will depend from April 1 with the buffer stock falling to an unprecedented I month's supply instead of the norm of 4 months supply. Imports are being talked about and the 1 million tonne is still nowhere in sight. The government reports an 'inexplicable" increase in the offtake of wheat and rice from the PDS, the sale of wheat through the ration shops increasing by 1.71 million tonnes during April-October 1991 compared to the same period in 1990. There is need to increase farm output, particularly foodgrains and it is to this that the country's development strategy should concentrate. The other action needed is to buy and import urgently 1 million tonnes of wheat as a start which has to be increased. The government reports to Parliament that foodgrains stocks on February 1 was 14.5 million tonnes.

Exports and BOP

On the positive side the trade gap has declined by Rs. 4624 crores in 9 months April-December compared to the previous year due to the import compression. In dollar terms also the deficit has contracted by $3204 million. Overall exports in rupee terms have increased by 31 per cent, in dollar terms they have fallen from $13,229.28 million in the 9 months in 1990-91 to $12, 643,30 million in April-December 1991-92. One important negative feature has been the loss of the Rupee trade of the Soviet market, made up to some extent by increased exports to the general currency area. India's exports excluding the former Soviet Union amounted to Rs. 17,0007 crores during April-September 1991 compared to Rs. 12066 crores a year ago, rising by 41 per cent. A RBI study points out that there is a long term unfavourable trade balance for India, the export earnings being far below the imports during the last 20 years. The export sector will

have to grow by over 9 per cent in the last 2 months of the year in dollar terms to make up for the negative growth in the past 10 months. The Ex Imp scrip premium has fallen from 45 per cent during its launch in July to 17 per cent in February. This fall which has hit importers and traders is in some way a correction : the government's shifting items in and out of the OGL list (4 times in the last 8 months). Will the savings be stabilised at the present level ? Should the scrip be replaced by limited convertibility of the Rupee ? These are issues on the horizon. There are serious and complex problems in the foreign trade/BOP field which cannot be solved in a hurry. Some of them include, the Dunkel proposal (see last volume XXII p75), the threat of retaliatory action under section 301 of the US Trade Act, the IMF and World Bank pressure and the whole policy of structural reform and adjustment. What is needed is to give the government time and support in tackling these multifarious problems. On individual items, the government has finalised a five pronged strategy to attain an export of Rs. 1500 crores of marine products this year, against last year's Rs. 890 crores.

Loans and Aid

A new element in the area of loans is the role of the International Finance Corporation (IFC), the private sector lending division of the World Bank, in making loan to India's private sector. It is estimated that within the next 2 years, IFC will provide funds to the tune of $700-800 million for financing various private sector projetcs. At present, India has the second largest (after Mexico) port folio expansion with $420 million as loan and $80 million in equity. Its investment in India include TISCO, Haldia petroleum, Arvind Mills and Nippon Demo Ispat. IFC announced in February that it has cleared the proposal for equity participation in IFGL Refractories of the order of Rs. 130.08 lakhs. The massive entry of IFC into India's private sector is in accordance with the reformed policy to encourage the private sector. However the policy and details need reflection. The Asian Development Bank will be lending $250 millions to reform the country's transport sector. The World Bank plans to lend $850 million to ONGC for oil and gas development.

International

UNCTAD

The four yearly United National Conference on Trade and Development (UNCTAD) VIII opened on February 10 at Cartagana, Colombia. At the opening meeting the UN Secretary General pointed out that poverty was the main cause of political violence, the world over, migratory flows, and the spread of epidemic disease. International debt had hit the poorest countries hardest and was the most urgent issue facing the international community. UNCTAD secretary general stated that freedom was its foundation of a dynamic and just world order and that people living in poverty and deprivation are not free. 210 delegates from more than 160 countries are attending the conference. The Future role and responsibilites of UNCTAD in the fast changing global environment, the concept of good management and the need for sustainable development are dominating the conference. It has suggested that institutional reforms including a new international partnership for development, enhancing the participation of developing countries in the world economy, examination and eva-

luation of trends and issues in the world economy and cooperation for sustainable development should be brought about in its functioning. It has cautioned that any final agreement at the ongoing GATT negotiations on global trade which fails to take fully into account the development dimension will be incompatable with the goal of achieving a positive and balanced outcome. Such an outcome requires genuine efforts to restore outstanding political problems which exist in practically every negotiating area from market access to institutional issues. UNCTAD is reported to have reached agreement on all issues such as resources for development, international trade, strengthening of technology and commodities and strengthening the technology. This consensus was arrived at by the main committee of the conference. In its concluding session, industrial nations have pledged to increase their aid to the 50 least development countries, in addition to their aid to the former communist countries. It decided to take new steps to overcome poverty and to do more to liberalise world trade. There was also agreement on the reform of UNCTAD. There was disagreement on dealing with the debt issues, with the US opposing the decision to set up an expert body to deal with the debt, as it wants it to be dealt on a case by case basis.

The Dunkel Draft

Government states that the proposals made by Arthur Dunkel on various issues before the Uruguay round form the basis for further negotiations and is not a 'take it or leave it package' as suggested in an earlier issue. The Dunkel proposals are aimed at narrowing down the differences in certain areas like intellectual property rights, agriculture and textiles. The proposals represent a broad consensus among the 103 participating countries. Accordingly the government states that it is examining the programmes to set forth India's position. India has already expressed its concern in the area of pharmaceuticals and agro chemicals, which endeavours to introduce compulsory licensing in the areas of food, pharmaceuticals and agro chemicals in the agreed texts, in order to avoid monopoly by the patent holder of licenses. In the area of trade related intellectual property rights, in respect of food, chemicals, pharmaceuticals and bio technological products, India can delay the application of the obligation till January 2003, provided the countries concerned provide means by whose application for patents for such investors can be filed after 1-1-1993 the date of its entry into force. In textiles, under the Dunkel proposal the multifibre agreement will be phased out during the 10 year period 1993-2002. On January, 2113, textiles and clothing sector would be integrated into GATT, with all restrictions being eliminated. The 10 year period will be divided into 3 stages of 3.4. India and other developing countries want the integration in the first phase and not at the final phase. The government realises that developing countries have very little negotiating force and the interests of the countries are varied. On the US threat to impose trade sanctions on India under Special 301 unless it signs the Paris convention, the government seems confident of being able to maintain its position. Bilateral negotiations are to be held and the issues will be resolved. However there is a large body of opinion in the country which believes that the acceptanace of the Dunkel proposals will result in industrial decline, massive underemployment, and sky rocketing of agricultural prices. There is a demand for a full open debate on

the proposals, including its most controversial proposal which is the establishment of a multilateral trade organisation which in collaboration with the World Bank and the IMF is to review India's trade policies. Some established economists led by Babatosh Dutta want an open debate before the government accepts the Dunkel Draft. This should be conceded. GATT has come out with a further proposal that increased trade and income will make it possible to protect the environment better. Ecologists however are opposed to this thesis. In fact GATT is opposed to the policy advocating environmental policies such as clean companies' which will adopt unilateral trade measures such as import ban.

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UN Security Council Summit

The Heads of government of the 15 members of the Security Council met at the end of January with the Prime Minister of Britain in the chair and adopted an international declaration which sets forth the broad agenda for the UN following the disolution of the USSR. The main thrust is that there is need for an innovative approach to the continuing problems of peace, arm control, disarmament, nuclear non proliferation, and human rights and economic development. The UN now should undertake preventive action in areas of potential conflict and war. Russia which has taken the place of the Soviet Union in the Security Council has prepared a new system of a global defence against missile attack. This is welcome and should be pursued.

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II. Agricultural Development in Tamil Nadu

Paddy and other crops

Unlike the farm front problems at the national level referred to earlier, the farmers in the state are doing well this year. They have covered 21.63 lakh hectares both kuruvai and samba paddy crop, with the scope of covering another 4 lakh hectares under the next navarai crop. The 30 lakh hectares target may not be attained, but the farmers are likely to bring 28 lakh hectares under paddy - after 6 years. The farmers report above normal yield from the main samba paddy crop including the dry farmers of Pudukottai district reporting a yield of 5 tonnes per hectare which will be the average of the Thanjavur districts farmers. Actually the paddy yield in Nagapattinam and Thanjavur districts has been the highest at 5.6 - 6 tonnes per hectare that the farmers have obtained. The target set for themselves is 100 lakh tonnes, which again may not be reached, but they will produce above 90 lakh tonnes. The coverage by the farmers under millets and pulses, is equally good. They have brought 12.55 lakh hectares under millets by early February, against the target of 10 lakh hectares. With sufficient water for irrigation in tanks and reservoirs, the farmers will respond well to the department plan for a summer programme. They will cover under millets 4 lakh hectares, under Navarai as earlier referred to, 3.38 lakh hectares under pulses and 50,000 hectares under groundnut and cotton each-12,500 hectares under gingelly. The summer Navarai farmers are concentrated in the districts of North Arcot - Ambedkar, Tiruvannamalai Sambuvaraya, South Arcot and Chingleput MGR. Their production is expected to touch 84.10 lakh tonnes against last year's target of

75.64 lakh tonnes. They will be producing 85.25 lakh tonnes of rice, 18 lakh tonnes of millets and 7.2 lakh tonnes of pulses, making a total production of 90.45 lakh tonnes, which would be a record for the state. With the harvest of the main paddy crops having reached the peak in the delta, the civil supplies department has already procured 9 lakh tonnes of paddy (from the composite Thanjavur districts). With the lifting of the traders levy demanded by paddy farmers, the target of 14 lakh tonnes of procurement will be realised. This record performance may affect the plan assistance of the state for the next year. There is no guarantee that this good performance and its raising the state domestic product, which is the yardstick determining plan assistance. This programme is quite unlikely to be repeated by the farmers next year, as that will be determined by rainfall and water for irrigation at that time.

NABARD Credit Plan

Related to the above encouraging picture of the farm sector in the state, is the NABARD's new credit plan for 1992-93 to 1996-97 for the state's agriculture. The plan for 1992-93 envisages a total bank credit of Rs. 2258 crores for rural development (comprising Rs. 1104 crores medium term loan and Rs. 1154 crores short term loan, the non farm sector receiving 67 per cent of credit, animal husbandry 17 per cent and minor irrigation 5 per cent). The plan is based on the assessment of existing and likely infrastructure linkages, strength of the banking institution and capabilities. NABARD has 9 district development offices in the state, at Cuddalore, Dharmapuri, Salem, Erode, Dindigul, Trichy,Thanjavur, Ramanathapuram and Tirunelveli which covers all areas and where the local banks will be servicing small, marginal and medium level farmers effectively.

Research results

Among the 22 research reports recorded in February, five groups are of special interest to the state's farmers. First, a group of 4 reports on rice research are of interest to the state's vast area of paddy farmers. AP agricultural university reports developing 2 short duration varieties of paddy with 115 days duration - WGL 18011-15 and WGL 20471 which are heavy yielders and suited to our wet regions. The agricultural college and research institute, Madurai reports that it has developed the rice - Azolla dual culture under which azolla is grown along with paddy and is responsible for biological fixation by azolla in symbiotic association with Annabaena as a contribuant of nitrogen to the rice crop: the national dairy institute, Karnal also reports that using cyano bacteria for rice cultivation to provide the crop with biologically fixed nitrogen helps the small and marginal farmer who cannot afford the chemical fertiliser and saves him Rs. 100 per hectare on the use of this popular fertiliser, finally the Kerala Agricultural University reports on the results of its experiment to control the brown plant hopper menace in rice which shows that selecting the right insecticides and its correct dosage and use controls the pest A second group of reports is of help to farmers growing millets and other crops. The agricultural college and research institute, Madurai reports on its studies to check witch weed in Sorghum involving following a proper crop rotation such as sorghum followed by cotton, sunflower, castor, groundnut, cowpea of soyabean, applying a high dose of nitrogenous fertilisers at 100 kg per hectare and maintenance of wet condi-

tions. UAS, Dharwad reports on its results to control dewny mildew in sunflower through destruction of all affected plants and spraying ridomil MZ 72 solution at 600 litres per hectare. TNAU reports on the use of 420 spirillum, a symbolic bacteria found in rhizosphere of crop plants. This simple technique will help the farmer to increase his millets output - sorghum, ragi, maize by 10 percent: UAS station at Ullal, Karnataka, reports on the use of a simple technology for rejuvenating low yielding and old cashew nut trees by top working, starting with identifying trees yielding less than 2 kg of nuts or plants which are 10 to 25 years old, cutting them to a short stump and applying a part of 30gof BHC and Bitox. In 40 days in the stump new sprouts appear, which can be used as graft. On sugarcane, one report from TNAU from its Cuddalore station is that by spraying some chemicals the cane yield is boosted, its sucrose content increased and ripening hastened, and a second report from the same Cuddalore station advices the sugarcane farmer to apply phosphatic fertiliser to the crop to help it grow and increase the phosphate status in the soil which involves the use of phosphatic bacteria biofertiliser which is both effective and economical : TIHA, Bangalore reports developing an integrated pest management strategy, which is simple and cheap, as it uses the bold seeded mustard seed, Brassica Jundea to ward off and control cabbage pests. A fourth group of reports refer to protecting fruits and vegetables, the college of agriculture, Hyderabad reports on use of fenvaleterat to control the leaf eating caterpillar. AP agricultural university reports that Nematode pests in mushroom can be controlled by growing and marketing a good mushroom for which 5 simple steps are suggested : the agricultural research station, Kovilpatti reports on the results of its experiments on rainfed cotton and the means of evaluating the right dose of magnesium to increase its yield which the cotton farmer can follow: the agricultural college, Kumalar - advices on the use of tree, Pimaram, to increase fodder production in dry regions and in another experiment it shows that zinc deficiency in crops can be simply corrected by applying 10 kg per hectare of zinc sulphate : the regional agricultural research station at Guntur, reports on the effective use of lady bird beetles as insects predators. Finally, the animal and poultry farmer will be helped with two reports: the Kumaraperumal Farm Science Centre, Trichy reports on the effectiveness of the use of synthetic pyrethrod as a means of controlling flea infection in goats : the lam farm, Guntur advices that egg laying hens should be kept together in a flock and the others culled. This both checks diseases, inflection and losses following from it also creates more space, feed and water for the others.

Plantation Crops

1992 is both a difficult and challenging year for the plantation crops-57 per cent of tea exports, 58 per cent of coffee exports, 61 per cent of pepper exports and 46 per cent of cardamom exports. How and who will replace this lucrative customer? The challenging problem is the sharp increase in supply. Tea production in 1991 was a record 791 million kg, which was higher than the year's target of 735 million kg and 1990 yield of 714 million kg. South Indian tea gardens were the leading contributor to the high production at 185 million kg (which was 14.5 million kg above 1991) and followed by North Indian production of 556.5 million kg' increasing by 12 million kg. In 1991 the overall supply-demand gap will be

bridged and the fears of a fall in tea prices has been averted. The Tea Board announces a government scheme to subsidise to the tune of Rs. 130 lakhs, the change over from farm crops grown in the Nilgiris over *900 hectares by* tea gardens, to growing less in order to meet the target for 2000. *Coffee* is facing another bumper production year 1991-92 at a high 210,000 tonnes against output of 171,000 tonnes - 1990-91. Coffee exports this year was 66,454 tonnes valued at Rs. 214.9 crores against the export of 65,357 tonnes worth Rs. 180.77 crores in 1990-91. At long last, the government of Karnataka has reduced the purchase tax on coffee grown in Karnataka from 13 per cent to 7.5 per cent which prevails in the neighbouring states. The world price of coffee is now looking up compared to 1990. *Rubber* is facing an even higher increase in 1990-91 at 329,615 tonnes compared to 297,300 tonnes in 1989-90. This increasing production trend will further in 1991-92 at 375,000 tonnes, which is some 10,000 tonnes above the year's target. Arising from this and the excess imports of last year, the government has allowed the export of 14,000 tonnes and is aiming at exporting 20,000 tonnes. Rubber prices have been stagnant and are begining to fall and so the demand from Indonesia and Malaysia for Indian rubber is emerging strong and will counter this falling trend. *Cardamom* output in 1990-91 was a high 4750 tonnes compared to 3,100 tonnes in 1989-90. For 1991-92 the output is forecast at the same 4700 tonnes as during the previous year. There was a slight improvement in exports from 127 tonnes to 224 tonnes and strengthening of prices which brought in Rs. 6 crores compared to Rs. 4.09 crores last year. *Pepper* production also is expected to rise to 60,000 tonnes in 1991-92 from the previous year's 52,000 tonnes. Export of pepper till October was 8875 tonnes valued at Rs. 34.49 crores compared to 1864 tonnes exported last year at Rs. 62.16 crores. Here again there is a tendency for prices to fall, which is contrary to the inflationary trend of the economy. The supply side in the plantation crop is important.

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III. Industrial Development of Tamil Nadu

February saw the usual plus and minus points with regard to Tamil Nadu's Industrialisation.

On the plus side, *first* as forecast in Vol XXI p. 564, *Standard Motors* (SMPL) commenced operation at its Perungalathur factory on February 3, after being closed for 3 years. The factory at the initial stages will be working 2 or 4 days a week depending on the production facility and absorb 2000 workers during this staggered period of working. Each worker has been given Rs. 5000 towards his dues. The company is discontinuing the luxury car, Standard 2000, and will concentrate on manufacturing the light commercial vehicle which has an annual capacity of 6000 vehiciles. *Second*, the reopening of *B&C Mills* from April 13 has been announced and a 3 member committee has been formed, to go into all the issues including finance and modernisation and make recommendations to the management. *Third*, two cent percent export oriented units - *Rajapalayam spintext and Sri Ramco's spinners*, Rajapalayam which are to

referred to as the fifth negative item under Tamil Nadu Industrialisation in the last issue. *Fifth,* as noted in the last issue, the pig iron project jointly *Planned by TISCO and DC Kothari group* is taking shape. The board of the joint venture, Tata Kothari Steel Ltd, is finalising the project details. The Tata DC Kothari group will have an equity stake of Rs. 55 crores in the project which will have a capacity to manufacture 1.2 lakh tonnes of pig iron- which is in great demand in the state. *Sixth, S and S Industries and Enterprises Ltd (SSIEL)* is diversifying its activities and is setting up a refined edible oil project in the state in 2 phases. In the first phase, a physical refinery with a capacity of 75 tonnes a day will be set up and commence operation in May 1992. In phase II, a function with Japanese collaboration were inaugurated in early February. *Fourth,* the state government cleared one more distillery project to be set up in the private sector by the *Rajshree Sugar and Chemicals Ltd.* It has been allotted 40,000 tonnes of molasses extruder plant and a solvent extraction plant will be set up and start operating from September 1993. *Seventh,* in a water shed event, the first group of 4 public sector companies which had disinvested part of their equity to financial institutions *MRL, NLC, HPF and NALCO* will be listed in the Madras Stock Exchange. Once listed, the shares can be directly traded in the market to the extent disinvested. *Eighth, India Cement* is planning the take over of the sick Karnataka Cement which has remained closed for 2 years. BIFR has asked IFCI and a national bank to get India Cements to take over this unit. When it does, it will expand its cement market in the South. It has already taken over the cement plant of Coromandel Fertilisers in AP. A new promotor who will bring in fresh capital is being looked for. *Ninth, the Narimanam Crude distillation Project* which is at present to process 5 million tonnes of crude because of the intensified drilling by ONGC is being expanded in stages and will be ready for commissioning in June 1993. Another unit being set up in the same area at a cost of Rs. 40 crores to set up LPG from natural gas will be commissioned a few months later in December 1993. *Tenth, NABARD* has approved a package for the *17 cooperative and public sector sugar mills* in the state to tide over the severe liquidity crisis faced by them and is releasing Rs. 90 crores in three instalment through the apex state cooperative bank and district level cooperative banks. *Eleventh, Cotton knit* wear exporters from Tiruppur have achieved a Rs. 1000 crore export target, some 10 months ahead of the target date in 1992. *Twelth, SPIC* has embarked on a Rs. 500 crore modernisation and expansion programme - with Rs. 160 crores for expanding its fertiliser plants at Tuticorin, Rs. 180 to Rs. 200 crores for the drug project coming upto Cuddalore, Rs. 23 crore for setting up a biotechnology unit in Coimbatore and Rs. 83 crore for acquiring bulk gas consumers. Its turnover which is currently Rs. 800 crores will fund Rs. 1500 crores by 1995. *Thirteenth, Tube Investments* reports going in for a major investment programme aimed at increasing the company's exports - especially its modern high value bicycles and components. *Fourteenth, a Rs. 49.5 crore common effluent treatment plant* for the tanneries in the Pammal-Pallavaram area is expected to be commissioned by December 1992. *Fifteenth, TIDCO* has set a target of 70,000 tonnes of raw materials for distribution to small scale industries.

On the negative side, *first the Pammal Plant* is a late and weak reply to the

complaint made to the 9 member international jury meeting from February 17 in Amsterdam about the tanning industry with its 1000 tanneries, polluting Tamil Nadu's water. The complaint and the Jury verdict is to be presented to the UN Environment Conference at Brazil in July 1992. *Second, the Comptroller and Auditor General in his report* tabled in the Assembly for the year ended March 31, 1989 calls attention to the very meagre return on government investment which to talled Rs. 461.18 crores in 1989 March 31, and on which the returns were only Rs. 1.04 crores. Moreover the report points out that the plan expenditure of Rs. 1020.40 crores fell short of the provision of Rs. 1157.64 crores by 12 per cent. *Third, TANSI* the state sector small industries corporation, in order to reduce its losses has closed down 4 units in January and will be closing another 12 during the coming year. This is on the right lines to close down non viable units and for government to get out of operating industrial units. *Fourth, TIICs,disinvestment policy is slowing down* because of the heavy tax liability on the income arising from off loading of shares in the 21 private companies which at the time of the underwriting the shares had a book value of Rs. 3.97 crores but now has appreciated to Rs. 70 crores. So it proposes to disinvest these shares to avoid the heavy corporation tax which it will otherwise have to pay. *Finally, the small scale sector* in the state is in mess. Looking only at data on unutilised provisional certification to start industries issued by the state government, it is found that out of 50,000 letters of intent issued annually only 15000 are converted to permanent licenses. This large scale non implementation of projects has serious consequence. Industrialists hoard licenses just to exhaust the notified capacity levels of individual industries so that they do not need to face competition. Further, the provisional certification are misused for obtaining loans from banks, which have no business to fall into the trap. Industries Department falls a victim to this because they want to show that they have attained the target of LI issues for the year. The Department should have a data base to tackle this process so that the new liberalised regime is not misused. Thus, on a more positive note, signals in the industrialisation drive in the state outweigh the negative ones, the most serious being the unattended polluting effects of the tanning industry which is growing and spreading.

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IV. Education, Science and Health

Educational reforms

The movement to reduce the high and growing government subsidy to higher education in order to increase the allocation for primary education is gathering momentum. The Indian Institute of Management, Ahmedabad (IIM) has proposed a 10 fold increase in tuition fees for the coming academic year 1992-93. The other IIMs and IITs will follow suit. The government on its side has decided to freeze its grants to these institutions at current levels. Though the grants have not been cut, in effect with inflation at 13-14 percent the grant in real

terms will be that much lower. IIMs depends on government grants for 50 per cent of its expenses and IIM Calcutta to the extent of 75 per cent. The tuition fees of IIMs for its post, graduation management programme is being raised from Rs 500 to Rs. 5000 a year. There is general agreement in the move to raise resources from first consultancy services. The IIM students draw salaries averaging Rs. 6000 a year and so the increase in fees is justified. On the other hand, the government sponsored UGC amendment bill aimed at fixing uniform scales of pay for teaching and non teaching staff of the Central universities has met with such strong opposition from the central universities that this much needed reform is likely to be dropped. The Tamil Nadu Committee on the review of autonomous colleges has submitted its report to the government recommending the grant of autonomy to more institutions in stages and on a selective basis. There are 43 autonomous colleges in Tamil Nadu, 33 of them being arts and science colleges. The committee pronounces the autonomous college a success, wants the college to establish curriculum development centre to help the college boards of studies and recommends the introduction of the credit system at the post graduate level, introduction of the extension component in the curriculum. It also suggests the setting up of an academic equivalence committee by every university to evolve norms of equivalence between programmes of different universities to promote student mobility. The bio technology centre of Anna University is developing teach and reteach in the high tech areas 'and has attracted aid (Rs. 70 lakhs) from the Swiss Development Corporation for its furthur development.

Technical education

An education centre of M/s Talking Technology Private Limited has been started in Madras in February. This will help catching up with the rapid advances in the emerging areas of Science and Technology. It will promote relevant skills and expertise with a long term focus in emerging fields of technology.

Science

An Institute of Applied Biotechnology Research at a cost of Rs. 22.2 crores is to be started in Bangalore. It will be involved in research for rapid multiplication of slow growing horticultural crops, improvement of drought tolerant rice, tissue culture, generation of medicinal plants and production of antibodies to detect diseased planting materials, development of efficient strains of nitrogen fixing bacterial strains for biogas generation using urban and rural wastes. At an inter IIT meet called by the Planning Commission in Madras, strategy to introduce IIT industry with action was developed largely on the experience of IIT Madras and its Centre for Industrial Consultancy and Sponsored Research which include a proposal to set up industrial foundation research, industrial parks, prototype and pilot plant development, goal oriented industrial research, electronic and small Industry extension to research and a centre of excellence in augmenting resources. It was agreed that there should be aggregate blending of modern and traditional technologies.

Health

The government reports that given the slow progress and lack of measurable

results from the family planning programmes, a new effort is underway to educate community leaders on the importance of family planning as a means of controlling the alarming growth of India's population size and increase. In this effort village pradhan and MLAs, MLCs, MPs and trade union leaders are being mobilised. The major effort to tackle the population problems needs to be mounted in weak areas which are the Hindi heartland of UP, Bihar, MP and Rajasthan where the couple protection rate is abysmally low. They are also socio-economically backward areas which needs attention to tackle the population explosion. In view of the spread of AIDS in India, starting in Bombay, US and World Bank help is being used to counter it.

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V. Employment and Labour Relations

The Union government has launched a large scheme to train 4,25,000 rural youth during the year to make them capable of earning their living. They are to be trained in basic management and technical skills TRYSEM and will apply to families earning an annual income of less than Rs. 4800. The scheme under TRYSEM, the Union government provides assistance to training institutions of the union and State governments and Voluntary organisations training youth. On the other side, the union government has finalised a Rs. 5000 crore National Renewal Fund (NRF) spread over a 5 year period to cover the workforce being retrenched from 58 public sector enterprises. About half their workforce, amounting 2.5 lakh have been identified as superfluous and they are to be given a gold handshake with the Rs. 1000 crore a year for 5 years NRF. The shedding of redundant labour will be done in a phased manner at about 50,000 workers a year. The hand shake is not regarded as a dead investment as it is expected that more workers will use the money to start their own small business. The labour minister conference has expressed opposition to the use of NRF for retrenchment and wants it to be used only for retraining and redeployment of workers. This redeployment can be used to streamline the units where there is an excessive workforce so that the distinction between the gold handshake approach and the redeployment approach is not really wide. The state government in February introduced an employment guarantee scheme on the Maharashtra pattern, starting with the 4 drought hit districts of Dharmapuri, Ramanathapuram, Pudukottai and Pasumpon Muthuramalingam Thevar. For this the government obtained the approval of the assembly in February of an allocation of Rs. 10 crores for the year. The landless agriculture labour will have to register themselves in their panchayat unions to be eligible for employment in the various development and welfare works in the area. The reduction proposed by the Union government and planning commission in JRY for the VIII Plan however will nullify these efforts to counter the growing unemployment. The government states that it has under study the recommen-

dation for the revision of minimum wages every 2 years instead of 3 years along with variable dearness allowance every 6 months. In the 5 year period 1986-1990, 31 million mandays were lost compared to the 47 million lost during the previous quadrennium 1981-85. An analysis of the 1986-90 record shows that strikes over monetary demands and personal matters and lock outs on account of indiscipline were the principal causes of work stoppages. While the number of industrial units declaring lay offs declined from 7322 in 1986 to 427 in 1990, the number of closures in small units (employing less than 100 workers was ten times that of larger units. This was due to the credit squeeze hurting small units much more than medium or large units, as pointed out earlier. Again the number of strikes and closures do not tell the whole industrial relations story because with out declaring strike or lock out, there is a great deal of loss in work following gheraos. dharnas, rule to work, etc.

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VI. Other Items

RDI and Magnetic Brain Scan

There was an extraordinary meeting of the Reader's Digest Board of Directors where a letter written to the Reader's Digest Association (RDA), Pleasant Ville and circulated to all shareholders by one of the share holders was discussed. It was found that the letter contained many wrong and false statements and was written without consultation with the Chairman on the Board. RDA, Pleasant Ville was informed about these facts. Madras acquired the latest model of the Magnetic Brain Scan which helps promote the Brain research foundation's programme and will be of immense use to the Madras Public needing this facility. Dr. Ramamurthy, Director of the Foundation, got the union minister of telecommunication to inaugurate the machine and explain its many uses.

Indian Economics Association Trust and TNSC and ST

Under the auspices of the Indian Economic Association Trust fund and the School of Economics, Madras University, a workshop was run in February on Fisal Discipline and Fiscal Stabilisation. The need to reduce the continuously growing revenue deficit by cutting government staff, defence outlay and subsidies was the first point of agreement on the question of fiscal discipline along with the widening of the income tax net, the taxing of agricultural incomes above the exemption limit as a means of providing fiscal stability were emphasised. There was the quarterly meeting of the Executive Committee of the Tamil Nadu State Council for Science and Technology which reviewed the ongoing programme and prepared the agenda for the meeting of the Council in March. Meanwhile as a result of the government's decision to change the minister of education and science, the council will have a new chairman when it meets in March.

IIC

The India International Centre organised its February panel discussion on

structural reforms-its components and implementation. There was general agreement on the reform to do away with licenses and permits and the unnecessary plethora of controls. This means that the alternative is a market driven economy which has to be developed in phases. *IIC also organised a seminar on the next day on the* problem of eficits-budgetary, *revenue,* fiscal and the means of reducing them. There was agreement that the first main reduction should be on the revenue deficit and the monetized part of the state debt-the RBI credit to government. If these two are controlled, the structural reform will get under way relatively smoothly.

University Management Reforms

There was a meeting of the CABE committee to examine the report of the committee on management of higher education. There was agreement that the blue print for the management of Central universities, autonomous colleges and other colleges is on sound lines but will have to be implemented flexibily, *in accordance with the needs of the state and region concerned and its educational demands and features.*

March Development Seminar

The paper for the March Seminar 'Sustainable Horticulture' by K. Rajaram together with a summary of the discussion on the paper appears as the first article.

Second Article

Part II of the note from the lecture on Structural Adjustments in the Indian Economy appears as the second article.

M I D S News

Dr. Nirmal Sengupta participated in a workshop on Action Research at National Institute of Rural Development, Hyderabad on 20th March, 1992.

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Mr. S. Guhan gave a talk on State Finances to Madras University Academic Refresher Course on 25th March, 1992.

He also gave a talk on Cauvery Water Disputes at Seminar organized by Pragati Vedika, Bangalore on 28th March, 1992.

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Dr. A. Vaidyanathan participated in

(1) Workshop on National Water Management Project in Tiruchi,

(2) Meeting of the Expert Group on Estimation of Poverty, Planning Commission, New Delhi.

(3) Lecture on Economic Policy and the Budget, India School of Social Sciences, Madras.

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A group of students from School of Oriental and African Studies, London accompanied by their Professor visited the Institute on 26th March. 1992 and had a meeting with our faculty on "Urban Studies".

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Dr. S. Neelakantan gave a talk on "Information Thoretic Approach to Micro-Economics"to Madras University Academic Refresher Course on 18th March, 1992.

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March Development Seminar

Sustainable Horticulture

by

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Global problems mainly relate to sustainability and productivity of crops along with the adequacy and dependability of our food supplies. These in turn are primarily dependent on changes in the land surfaces, weather, the abundance, availability, distribution and quality of water resources. fossil fuel resources and the changes in the gaseous composition of the atmosphere. There has been and there are still limitations for the collection, conservation and storage of international exchange of germplasm. This is true especially for plants that are clonally propagated coupled with an increasing rate of extinction of wild species. The planet Earth is a wonder to behold. Productivity of our land is of paramount importance to the future stability of mankind as human beings depend upon land for food, shelter and clothing. It is the land that makes major contribution. 95% of protein in our food and most calories are derived from land. Nearly 20 crops stand between people and starvation which are produced out of the land. Agriculture is the oldest and largest industry in the world and it is also the first basic enterprise. To provide adequate food to meet the improved diets for an expending, affluent, global population will be the greatest challenge in 21st century. 95% of the food consumed are from crops and the most sought-after goal of humanity in future will be the stable yield. It is estimated that annually we are losing world over 8 million hectares of land from non-agricultural conversion, 3 million hectares each from desertification and toxification. The rate of extinction of genetic resources is estimated at 1000 per year and it is still rising. Increase in lands of carbon-di-oxide due to change in the climate may potentially increase the yield from carbon assimilation by plants on a global scale. There's

a great potential for increasing productivity by better use of land and waste resources on land currently in cultivation.

Numerous experts, farmers, field workers and consumers are becoming increasingly concerned about the threatening loss of genetic diversity of crop plants and their wild relatives. Genetic diversity is necessary for sustainable agriculture to keep future agricultural options open. Farmers need genetic diversity to have their crops meet changed circumstances, like pest and disease resistance to evolve new strains, meet salt tolerance change in soil conditions and altered climates.

India has been blessed with a rich diversity of flora and fauna. There are about 15,000 species of flowering plants found in different parts of the country. There is a great degree of diversity ranging from tropical, temperate and alpine vegetations. It also depicts a great variety of plants from coastal to the mountanous Himalayas. In India it is estimated that 2500 species of plants are under various degrees of endangerment. Out of the 2,50,000 species of plants on the earth, it is estimated that global deforestation is proceeding at the rate of 16-20 million hectares every year. It seems that during the next 30-40 years, about 60,000 plants will face threats to their survival or even become extinct. A good many of them may be of great value to mankind such as economic, medicinal or ornamental. It is to be remembered that all the plant species presently cultivated have come from wild germplasm resources of the medieval period. The wild relatives of these plants contribute to the vast genetic resources for varietal improvements and genetic manipulation.

New problems and opportunities have become apparent in plant protection with greater emphasis on integrated control system. The rise in numbers of bio-types resistant to pesticides and a new generation of plant growth regulators, automation censors, new computer technologies and innovations in communication and management have potential for intensive crop management. Achievement in these areas make progress over a wide front possible for increasing the productive capacity of crops and the stability of their output with their sustainability of natural resources. It will be a real challenge to get all these developments implemented.

Emphasis has to be placed on the development of new techniques for collection and breeding of improved horticultural crops, on understanding the complex interaction between plant performance and the environment, on understanding the factors limiting the the shelf life of horticultural crops and on developing improved post-harvest handling techniques, production and post-harvest research will increase the competitiveness and profitability of horticultural crops in the international market.

India currently produces *55-60 million tons of fruit, and vegetables* annually out of which only 1.5% is processed. The exports of various horticulture products both in Quantity and Value terms for the period 1986-87 and 1987-1988 is in (Table 1). Nearly 23-30% of the production worth Rs. 8000 crores are wasted. India is the second largest producer of vegetables in the world, next only to China and the 3rd largest producer of fruits after the US and Brazil. India's share in the international market is only 1.7 million dollars out of ‚23 million dollars, which is a meagre 0.4% of market share. About 54 million tons of fresh horticultural

produce is grown out of nearly 5 million hectares which is only 3% of the gross cropped area of the country. The range is wide and there's a vast potential varying from tropical to temperate Zones virtually, every fruit and vegetable grown in the world is produced in India. as in (Table 2).

Eco foods of the future has to come mostly out of fruits and vegetables. Therefore nutritive qualities of fruits and vegetables will be of paramount importance. A major constraint is that plant breeders have little economic incentive to improve nutritive qualities of food crops. Farmers have few incentives to adopt them even though in the developed countries, a significant and growing segment of the population looks for and is willing to pay more for better quality food. In developing countries, the nutritive value of food is especially critical.

It will become increasingly important to decontaminate fruits and vegetables, soil and water out of pesticides. Common side effects of pesticides are related to environment component and the nature of their effects are depicted in (Table 3).

Abuse of pesticides should be stopped forth with. Some important pesticides, food they contaminate and the nature of their impact is analysed in (Table 4). It is time to replace the recalcitrant pesticides with the compounds of high pesticide suitability rating (PSP) to avoid the problems of residues. The various pesticidal accidents in India with reference to place and nature of pesticides is in (Table 5).

Apart from abuse of pesticides vast areas of land is becoming saline year after year. Besides correction and improvement of soil there is an urgent need to develop or introduce plant species and varieties suitable for saline tracks. In major crops like mango, it is imperative that salt tolerant root stocks are identified. It has been proved possible to improve the salt-tolerance of the desired scion varieties by grafting on them to rootstocks which have the ability to restrict the uptake of salts. Producers are to be developed to identify salt excluding genotypes from genetically variable population of fruit species and varieties.

In the field of medicinal plants the country offers tremendous scope as we have medicinal plants from Acorus to gingiber. Production of important phytochemicals through plant cell culture offers immense scope.

No dramatic change in the food habits of people is expected in the 21st century. About 20 food crops will continue to meet the primary needs of people with economic incentives, resource inputs and with appropriate techniques, there will be no world-wide food shortage. A shift can be expected from highly mechanised to labour saving crops. From a single crop of livestock farming to more science and biological opportunities and diversified farming will contribute to reserves and conserve set of agricultural technologies. A wide variety of crop production technologies resulting in collected systems of input will increase food productivity. Future will see more of production to technology inputs than in the past. In the case of resource base, new technologies and impact of science we are mindful of creativity, innovations and vision of people - THE HUMAN RESOURCES. This will be the greatest of all resources, which may be termed as human capital. As no limitation can be ascribed to the human mind, it will be the most unpredictable and most important contributor to the future of agriculture.

TABLE - 1

Export of Agriculture & Processed Food Products

Items	1987-88 Quantity in tonnes	1986-87 Quantity in tonnes	1987-88 Value in Rs lakhs	1986-87 Value in Rs lakhs
Fruit juices	3992	8814	245	533
Other canned fruits	25976	30320	2682	3401
Canned vegetables	916	971	163	172
Dehydrated vegetables	876	1128	143	167
Pickles & chutneys	6360	5700	680	620
Fr/Fz sheep/goat meat	7968	9378	2191	2297
Frozen buffalo meat	51540	36064	6704	4584
Canned meat	—	1376	34	321
Poultry products	—	—	85	54
Animal casings	—	—	381	232
Confectionery	—	70	46	13
Biscuits	1205	821	139	90
Guar gum	43947	28337	8021	3367
Alcoholic beverages	—	142	—	78
Wheat bran	592	—	14	—
Malted milk-food	821	892	204	208
Ghee	198	533	103	228
Starch and derivatives	1085	2683	36	71
Papads	3129	3343	503	490
Cocoa products	151	69	78	35
Walnuts in shells	256	300	42	58
Walnut kernels	3876	4062	1214	1194
Mushrooms	70	68	1187	1013
Other processed foods	—	—	362	326
Fresh mangoes	14900@	10500@	1730	1200
Other fresh foods	12500@	14500@	1250	1300
Fresh vegetables	30000@	28000@	2100	1960
Fresh onions	140996	265875	4213	5846
Fresh potatoes	111	27	5	Neg.
Basmati rice	330611*	237153	30788	20678
Other rice	67958	2689	3514	132
Wheat	491644	439105	7568	7481
Maize	50	10	1	Neg.
Bajra	5887	2408	149	66
Jowar	782	930	22	24
Ragi	52	74	3	2

@ Estimated * Exclude figures for Kandla for March, 1988.

Source : Indian Food Industry, March-April 1990

TABLE-II

All-India Final Estimate of Miscellaneous Crops 1988-89

Crop Production (Thousand tonnes)

(1)	1988-89 (Final) (2)	1987-88 (Revised) (3)
Sugarcane (Cane)	2,04,625.5	1,96,736.9
Coconut	8,160.8	7,269.9
Tobacco	491.4	367.4
Condiments & Spices		
Black Pepper	43.4	48.1
Chillies	609.0	579.8
Ginger	153.6	142.8
Tumeric	339.8	303.9
Coriander	173.2	296.8
Cardamom	8. 7	9.3
Garlic	242.3	318.6
Arecanut	246.1	226.7
Guarseed	710.0	143.5
Fruits & Vegetable		
Banana	5,954.1	5,917.9
Potato	14,892.5	14,046.0
Sweet Potato	1,278.5	1,257.6
Tapioca	4,470.0	5,416.5
Onion	3,236.4	2,700.7

Source : (Agricultural Situation in India, March 1990)

Table-III

Common side effects of Pesticides

Environment Component	Effect
Abiotic Plants	Residues in soil, water and air Presence of residues Phytotoxicity Vegetation changes (e.g. due to use of herbicides)
Animals, avains, insects etc.	Residues in domestic animals and wild life Physiological effects Mortality in certain wild life species (e.g. mammals, birds, fish) Mortality of beneficial predatory and parasitic insects. Insect population changes (e.g. the development of secondary pest as a result of above). Genetic disorders. Biochemical changes
Man	Residues in tissues and organs Effects of occupational exposure
Food	Mortality and deformations Presence of residues

Adopted from : Cherian and Mulky (1989)

Table - IV

Some important pesticides, food they contaminate and the nature of impact

Pesticides	Food Contaminated	Impact
Organochlorines		
Aldrin	Fish, Milk, Fat	Accumulation in human tissues
DDT	Fish, Milk, Fat, Meat	Accumulation in human tissues, low toxicity, induction of liver enxymes
Lindane	Fruits, Vegetables Cereals, Milk, Fat	Accumulation in human tissues, toxic to bone marrow, probably carcinogenic
Heptachlor	Fish, Milk, Fat	Accumulation in human tissues, toxic to bone marrow, probably carcinogenic
Organophosphorus		
Malathion	Fruits	Acute toxicity, neurotoxic
Parathion	Fruits, Vegetables	Acute toxicity, neurotoxic

Kavadia (1989)

Table - V

Salient pesticidal accidents in India

Pesticide	Place	Year	Cause	Reference
Parathion	Kerala	1958	Food contaminated due to leakage	Karunakaran (1958)
	Bombay	1962	Inhalation in manufacturing plant	Refer Mukerjee (1984)
HCH	Bombay	1963	Rice contaminated	DGHS, Delhi (1965)
Endrin	Bombay	1964	Food contaminated	DGHS, Delhi (1965)
DDT	Punjab	1965	"Chutney" contaminated with DDT	The Hindustan Times (15. 06.65)
Diazinon	Pune	1968	Food contaminated	Kamik (1970)
HCH	U.P. (Lakhimpur)	1976	Mixed with wheat	Nag (1977)
Endrin	Karnataka	1977	Contaminated crabs in rice field	Refer Mukherjee (1984)
Aluminium phosphide	Rajasthan	1983	Contaminated foodgrain	Bajai and Wasir (1988)
Methyl isocyanate	Bhopal	1984	Storage tank leakage	Banerji (1986)

Summary of Discussion

The author at the outset posed a pertinent question relating to the sustainable nature of agriculture and raised a query as to why Horticulture today was not sustainable vis a vis food crops. Horticulture means business and therefore farming has become a way of life.

In the Indian context for an average farmer what is sustainable and profitable in the long run is the possession of economic holdings. India has the natural advantages of being a tropical country blessed with plenty of sunshine most part of the year to grow a variety of crops even on small and marginal lands. The potential is greater for horticultural crops like mango and grapes even during off seasons. The success to evolve a sustainable agricultural strategy is in the areas of marketing and management.

The successful story of grape cultivation in a village in Chingleput MGR District was visually demonstrated to the participants. Grape cultivation could be developed in that village without involving outside workers.

The Maharashtra farmers are an exception and has proved that successful adoption of horticultural practices is economical, sustainable and remunerative even in non conventional areas for small and marginal farmers The sustainability of land however depended on policy decisions of government based on appropriate water management policies to prevent soil erosion and avoidence of excess dosage of chemicals and pesticides.

The chairman, Dr. M. S. Swaminathan while intervening in the discussions mentioned that Tamilnadu Agricultural University is a pioneer in agricultural research in the country, yet studies shows about 95 percent of vegetables and fruits contained high level of toxic contexts above permissable limits.

In the discussions that followed the presentation, a local farmer raised the query on the dosage of fertilisers and pesticides to be used for different crops as the farming community are ignorant of modern farming methods. The author responded by stating that educating farmers alone would not suffice and practically not feasible but if the dealers, government outlet agents, extension officers, depot managers were involved it would go a long way to educate the farmers. The Chairman intervened and mentioned that imports of fruits and

vegetables from India is highly vulnerable to foreign buyers as they are suspected of containing high percentage of pesticide absorption. Other issues of special importance are lack of proper storage, pre and post harvesting techniques and packaging materials.

On rhe question of the most common vegetable viz., Brinjal being prone to desease and to curtail excessive usage of pesticides for large areas and wide range of crops, it was felt that farmers themselves could not go after the agencies like the Agricultural universities which are generatly more thoretical in their style of functioning than been practical.

The author intervened and mentioned that pests could be tackled by usage of right pesticide and right dosage on time. He cited Israel as a case point where cowdung and earthworms are used as manure to improve the quality of soil. The chairman also mentioned that the whole agricultural extension services needs to be improved. Besides Production and distribution of quality seeds needs to be strengthened. Tamil Nadu climatically has a better crop mix both for horticulture and food crops but the full potential is yet to be tapped as in the case of Maharashtra farmers. It was also felt that for tangible results the active support and participation of the people in the village was indispensable.

To the question of horticulture products being soil specific and on its replicability and reliance, being limited, the author mentioned that apart from water, nature of soil was equally important. The genetic diversity to make crops meet changed circumstances to tackle pest and disease was crucial and proximity to markets to dispose marketable surplus was equally important.

On the question of whether the MS Swaminathan Foundation has conducted training for farmers on what soil what crops could be grown, the chairman mentioned the two ongoing projects in Pondicherry and Nagapattinam. He pointed out that suitable agroclimatic conditions, soil salinity, marketing and detailed planning along with the active support and cooperation of Small Farmers Agri Business Consultancy and the National Horticulture Board, the ideal match between the various crops and soil types could be ascertained.

One question raised was whether development of horticulture crops beyond a point would lead to reduction of area under cereals as the former is consumed largely by upper and high middle class population and latter by the poor and low income groups. It was clarified by the author that horticultural crops are developed only in the dry and rainfed areas and area under paddy therefore would not be adversely affected. The chairman however pointed out that the optimum mix of area allocation raises many important issues because the kind of crops raised has implications for income and employment generation in agriculture. As a corollary to the above query it was clarified whether the optimal mix of area allocation could come under the current liberalisation policy of the government. The chairman however made it clear that macro economic decisions at the highest policy making level are important. Yet local level decisions such as what products should be grown, how and by whom should be left to the cooperative societies and the farming households themselves.

On the need to explore the nature of soil and its constituent, a participant referred to the utility and efficacy of

satellite imageries rather than the tedious survey methods. The chairman was in confirmly with the above views and agreed that mapping could be done more efficiently and at the operational level the Anna University's Remote Sensing Department is involved in similar activities.

On the question of the quantum jump in pesticide consumption over the years inclusive of both locally manufactured and imported categories the author was very much concerned and mentioned that pesticides were pest specific and their dosage and timing were equally important to produce the desired results. The Chairman mentioned the two common pests viz., the *Stem Borer* and *Lady Bird Bettle* which has to be tackled at the right time with the necessary dosage and even village communities have to be encouraged to use profilactic sprays. A classic case of Indonesia where 50 percent of pesticides from outside farmers association was banned was narrated to prove the harmful effects of the ill use of pesticides. The crucial areas for sustainable horticulture according to the chairman involved efficient water management schemes, post harvest technology, right dosage of pesticides and improved marketing strategies. The chairman also cited the example of the successful fibreless ginger cultivation in Wynad district of Kerala, yet is was not sustainable due to marketing problems.

The scope for increasing horticultural activities was immense and even forest lands and unconventional areas can be utilized with superior hybrid seed varieties supplemented by efficient water and pest management. The village level meetings on a regular basis and cooperation of local people would give an impetus to the sustainability and development of horticulture, in the near fufure.

V. JACOB JOHN

Structural Adjustment in the Indian Economy – an assessment*

Risks of recession are likely to be aggravated by the measures to reduce the fiscal deficit. The 1991-92 budget promised that deficit financing will be contained at Rs. 7,500 crores without imposing any additional levies largely by controlling non-plan expenditures and effecting substantial cuts in food and fertiliser subsidies. If indeed non-development expenditures are contained at budgetted levels by these measures, it would be an unprecedented achievement deserving the utmost commendation. Even so the fact that revenue collections are running substantially below projections and report that the centre is holding back on payments (eg. of amounts due to the financial institutions on account of the farm loan waivers of last year), give room for apprehension that deficits may not be really contained at projected levels. The latest available information suggests that Reserve Bank lending to government is running at a higher level than projected.

The prospects for the coming budget are more daunting. Even ignoring the unease on account of revenue collections, if present trends continue, several difficulties remain. Reducing tariffs to fulfill commitments about trade liberalisation would mean substantial revenue reduction; and a cut in the statutory liquidity ratio (i.e. the proportion of the commercial banks, resources which they are required by statute to invest in government securities) will substantially reduce the magnitude of borrowings from the market and/or raise their cost. The government has in any case agreed to bring down the fiscal deficit to 5 per cent of GDP by 1991-92. Substantial cuts in non development expenditure are not feasible in the immediate future. Nothing can be done about interest payments; it would be surprising if defence and expenditure on civilian staff can be brought down significantly in a year or two, and the scope for further cuts in central subsidies is limited.

Given all this, there is every likelihood that the resources available for the plan will be squeezed. A slow down in public sector plan outlays would affect growth via aggregate demand and depressing growth of industries dependent directly on public investments. It also raises difficult questions of where

*Part II of the Dr. John Mathai Memorial Lecture delivered by Prof. A. Vaidyanathan at the Department of Economics, Calicut University, Thrissoor, January 10, 1992.

the cuts should it be in the central plan or in reduced assistance to states? How should cuts be distributed as between energy, transport and other infrastructure, agriculture and rural development, industry and anti-poverty, employment programmes? Cuts in infrastructure investment will adversely affect growth, while cuts in anti-poverty restrict the scope of the 'safetynet" for the poor at a time when they need it most. On the other hand to insist on a certain magnitude of financial outlays for the plan, irrespective of what happens to nonplan expenditures and the impact of various fiscal measures on resources available to government, can only exacerbate the dangers of a stagflation.

It is thus necessary to be realistic about the economic and political problems involved in reducing the fiscal deficit and the time it will take to accomplish it without causing serious dislocation. To try and 'sell' the adjustments package on the promise of a speedy and dramatic turn around in the economy's performance in respect of output growth, employment, inflation and balance of payment, is tempting but shortsighted. Not all the elements of the package have been worked out ; none of them is easy to implement ; and the economy's response is uncertain. The risk of one or more promises regarding improved performance is very high. Therefore, it is better to administer the bitter medicine without sugar coating it with false hopes. Adjustment will be a slow and painfull process and should be projected as such.

Reducing fiscal deficits calls for measures both on the revenue and on the expenditure sides. Major changes in the structure of taxation—especially as between excise and customs —are in the offing. The nature of these changes and the net revenue impact is as yet unclear: the apprehension is that there may be a loss of revenue. Partly for this reason and on grounds of equity, a substantial increase in the share of direct taxes relative to total revenues and to GDP is desirable and feasible. Wider coverage of direct taxes, simplification of the system by eliminating exemptions are as necessary as effective enforcement of tax laws. There is clearly much room for improvement in the latter respect.

However, much, the more important concern should be on economising expenditure both by cutting non-development items to the bare bone and improving the efficiency of development spending. Among the non-development expenditures, defence, staff salaries and subsidies are the prinicipal areas where potential for economies is large.

In the case of defence the need for a close look at manning and equipment programmes with a view to cut ing down spending without compromising security has long been emphasised but to no avail. The upheavals in USSR, so far the major source of our hardware, may have significant consequences for the cost of maintenance of existing equipment and for replacements both of which may call for large expenditures. Changes in the world geopolitical situation on the other hand argue for a reassessment of our "threat perceptions" and long term defence strategy. What the overall impact would be can only be a matter of speculation at this stage. But there can be no question that any reassessment should keep in mind the severe fiscal crisis and the need to contain the growth of defence expenditure to the minimum, and, if possible, even reduce them so that resources for development are not jeopardised.

In order to contain the growth of staff salaries it is essential to (a) check any

increase in the number of government staff and eventually reduce it; (b) redeploy of personnel along with rationalisation of activities to raise their effectiveness and (c) observe a great deal of restraint in the matter of revision of pay scales, allowances and benefits. Government employees are among the more privileged segments of Indian society in terms of level of emoluments and security of jobs and can reasonably be expected to share in the cost of structural adjustment.

The third area is subsidies. Apart from explicit subsidies given by the centre on account of food, fertilisers and exports, the quantum of implicit subsidies largely on account of the difference between the cost of providing various goods and services and the recoveries from their users is much larger. The National Institute of Public Finance Policy and Research estimates the total value of unrecovered costs on account of social and economic services at Rs. 42,000 crores in 1987-88-nearly as large as the total public sector plan outlay in that year. About 40 per cent of the unrecovered costs is on account of social services and 60 per cent for economic services (including irrigation, power and transport). A substantial reduction in the magnitude of these subsidies would release sizeable resources for the plan and should therefore be very high on the agenda of reform.

These unrecovered costs however, do not all represent subsidies to the consumers of these services. A good part of it is attributable to inefficiencies in production and inappropriate pricing for different categories of users. Therefore any attempt of reducing the magnitude of unrecovered costs must address both aspects of the problem. Increases in user charges are inevitable-notably for irrigation, power and road transport. However, it is essential to be discriminating while deciding which category of uses and users should be made to pay more and by how much. At the same time, the task of raising the efficiency in the production and distribution of the goods and services should receive far greater emphasis and attention than it has so far.

One way to generate the necessary pressures would be to subject increases in administered prices to review by independent tribunals and make them contingent on explicit commitments on the part of the concerned department/enterprise to achieve a reasonable level of operational efficiency and reduce unit costs. The present system of unilateral announcement of price increases without any question as to whether the costs and cost increases are kept to the minimum is indefensible. Clearly too the discipline must cover both the centre and the states in as much as the latter account for nearly 60 percent of the total unrecovered costs on social economic services and nearly half that on economic services.

That there is considerable scope for improvement in efficiency in practically every sphere is all too obvious. Efforts in this respect must focus specially on energy and transport - which are mostly or largely in the public sector and are used throughout the economy. Greater efficiency through better use of existing capacity of such universal intermediates reduces unit costs of producing them, and therefore the potential for cost push inflation through administered price rises. It also reduces the quantum of additional capacity, and hence investment, needed to meet a given growth in demand for these inputs. If these were combined with effective measures to conserve

and economise these capital intensive inputs in the activities using them, the additional capacity needed to meet a given growth of demand will be further reduced, thereby releasing investment resources for other uses. A strong and purposive policy of conservation of energy generally, and of petroleum products in iparticular, as well as in fertiliser use is essential. These are all highly capital rntensive, and import intensive; domestic esources of oil are limited and measures to contain the growth of demand for oil and oil-based products is essential for long term viability in balance of payments.

Improvements in enterprise efficiency however require concerted efforts in which the centre, the state governments and the workers of the concerned enterprises all need to cooperate. This cannot be achieved by exhortation, pressure or confrontation but only by assiduous fostering of a sense of the serious stakes involved and collaboration in evolving a restructuring programme which seeks to minimise the costs of adjustment—in terms of redeployment and even retrenchment of workers. To imagine that the problem can be solved through privatisation is altogether unrealistic in the case of infrastructure : one cannot duck the problem of improving efficiency of investments already made by the public sector ; the scope, manner and implications of privatisation in sectors like power, coal and transport have in any case to be thought thorough far more carefully and in detail before taking that route.

Another area where potential efficiency gains are significant is in the plan itself. These include a stricter scrutiny of all new public investment proposals in terms of the social and economic justication and a review of ongoing projects (especially larger projects) with a view to speedy completion of ongoing schemes and eschewing non-viable projects. By far the most important is reducing duplication and waste in implementation of agriculture, rural development and anti-poverty programmes which now account for nearly one fifth of public sector plan outlay. The efficacy of these programmes can be greatly increased by integrating and pooling the resources being spent on those elements of the programmes which consist of works to be done locally and making them available to elected representative local bodies for deployment in accordance with specific needs and potentials of each district, block and panchayat.

Duplication and leakages can be substantially reduced in the framework of such decentralisation even as it creates political space in which local leaders can meaningfully participate in developmental activity. The creation of such a political space at the local level is also a much needed antidote and corrective to the present excessive centralisation of power and patronage. Democratic decentralisation is therefore important both for more effective use of resources for local development and for more healthy politics.

All these reforms—and the list is far from exhaustive-calls for a high order of political management. In the first place, the sense of crisis, the imperative need for systemic reform and the rationale for the main element of the reforms need to be effectively communicated to all level of government and to the people at large. Second, the task of structural reform should not be viewed as the responsibility of the Centre alone. States spent nearly as much as the centre. They are responsible for key segments of infrastructure (namely electricity, roads and water supply) as

well as the social welfare andanti-poverty programmes; the implicit subsidies (unrecovered costs) passing through the state budgets are some 60 per cent more than in the central budget; and the state governments taken as a whole also show a substantial and growing revenue deficit. Unless the states also show a high degree of fiscal discipline-which must necessarily consist of a mixture designed to raise revenues, contain expenditure growth and improve the effectiveness of expenditure - it would be hardly possible to bring down the overall fiscal deficit without impinging adversely on the expansion and improvement of essential infrastructure (so crucial for the success of trade and industrial liberalisation) and on the employment and anti-poverty programmes (which provide a safety net of sorts for the vulnerable segments).

On the other hand, the condition of the state finances are affected in myriad ways by the Centre. The manner in which the centre mobilises additional resources, the centre's policies regarding salaries, allowances and benefits for employees, the operational effciency and pricing policies of central public enterprises, the decisions regarding the overall size of the plan, the magnitude of central assistance and the nature and scale of "centrally sponsored" schemes-all these all have a large impact on the state resources. Given this, and the vast ramification of structural adjustment' one would expect a serious and sustained effort by the Centre to take the states fully into confidence about the nature and magnitude of the crisis facing the economy and the rationale for and implications of the "structural adjustment" programme even while impressing on them the conbution they have to make and the responsibilities they have to share in order to make the programme a success. What we need is a national structural adjustment programme based on the maximum possible understanding and consent among the states and the centre. Apart from informal meets, the NDC and the Inter-State Council provide formal mechanisms for informing, counselling and discussing these issues with the states. That these have not been used to any significant extent in shaping the adjustment reforms is to be regretted.

In the final analysis no structural adjustment programme can be effectively implemented without broad based political support. This support will not be easy to muster merely on the basis of promises of faster growth of income and employment and of lower rate of inflation at the end of the adjustment process It requires not only a great deal of public education about the need for, policy changes but also to generate a feeling that the costs of adjustment-by way of lower subsidies, higher price of utilities and services, higher taxes, insistence on productivity norms, the redeployment and even some retrenchment of workers, restraints on increase in wages and salaries, restricting the scope for using public institutions for political patronage at every level-are being shared equitably. As it is farmers are being asked to pay more for water, electricity and fertilisers; workers to accept wage restraints retrenchment and closures; and the users of PDS to pay higher prices for foodgrains, sugar, kerosene and transport services. Necessary as all these are, they also provoke—and understandably so—a great deal of resistance. And the farm lobby and trade unions are forces to reckon with. Their opposition can however, be to some extent mitigated by measures to contain the adverse effects on employment and incomes specially for the vulnerable segments of the population.

A "safety net" for workers in the organised sector who may lose their jobs in the process of adjustment is on the agenda. But there is hardly any talk of the far more numerous rural wage labour and workers in urban unorganised activities who are relatively worse off, whose jobs and incomes are also at risk and who have neither legislative nor union protection. It is extremely important, at a minimum, to ensure that the employment and anti-poverty programmes and access of the poor to the PDS do not get whittled down in the name of fiscal crisis.

Above all it is essential to demonstrate that the better off segments, especially in urban areas, bear their due share of the costs of adjustment. The state must show greater willingness and ability to deal with this class, make them pay the taxes due from them, pay for the full cost of public service they use, and take measures to enforce greater austerity among them than is currently in evidence. Regrettably, the tendency is to assume that nothing much can be done to make tax administration effectively enfore existing tax laws relating to income, wealth and property. Amnesties and incentives to flush out black money is a reflection of this presumption ; and tantamounts to sanctifying a culture of non—compliance with the law among the well-to-do. So is the plea for lowering of the tax rates on the ground that it will reduce incentives for evasion. There is also a vocal lobby for raising the exemption limit for income tax, removing restrictions on the level of executive compensation, and reducing excise duty on durables and other goods largely catering to the better-off segments in the face of recession. Should the government yield to these pressures, the effective tax burden on the well-to-do will be reduced—even as all other classes are being asked to bear hardships for the sake of the "larger good". Can we really expect a democratic polity to support, or is it even proper to expect it to support, such an inequitous sharing of the cost of adjustment ?

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